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ECONOMIC PLANNING IN HUNGARY 1947-9

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BY
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FOREWORD

DR GEORGE KEMÉNY has special qualifications for writing on the subject of the Hungarian Three-year Plan of 1947–9. Having taught Economics at the University of Budapest, he joined the editorial staff of the *Pester Lloyd* on its financial side. He thus acquired twenty years' experience of the higher form of financial journalism, and then became Under-Secretary for Finance in the Hungarian Coalition Government from 1945 till 1948, when he left the country for political reasons.

He thus combines the outlook of an economist with direct experience of Government in the years in which the Plan was formed and enacted, and, being now in England, he has written the present work under the auspices of the Royal Institute of International Affairs.

Planning in its many aspects has been very much in the public eye in recent years. In the early years of the Soviet Union the need was felt of some central direction of the various productive enterprises for which the State had assumed the responsibility. It is the essential characteristic of products (whether goods or services) to meet a need, whether it be the need of an individual consumer, the need of a producer for some further process of production, or a need of the community for some common purpose, such as administration or defence. When the State assumes the responsibility for producing, it must decide how its productive resources are to be allocated among all the competing needs: it must decide how much of each product is to be supplied.

The Soviet Union embodied its decisions on these matters in the first Five-year Plan of 1928. The aim was the industrialization of the country, and particularly the development of its war potential through the expansion of the heavy industries. Successive Five-year Plans have followed.

As Dr Kemény points out, the conditions in Hungary in 1947 were different. Some important industries had been nationalized (as they have been in some countries of the West), but the greater part of industry was still in the hands of private enterprise. It was only after the Plan had started that nationalization was extended to include almost the whole of manufacturing industry and wholesale trading.

Therefore, at the outset, the Plan was concerned with producers and traders who were carrying on business on a profit-

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making basis. Free competition, as in most countries under post-war conditions, was limited by price controls, rationing, exchange regulations, import restrictions, etc. But within those limitations, each took financial responsibility for his own business.

In so far as planning has been applied to the countries of Western Europe, the controls have been relied on to supply the means of putting pressure on producers. Especially supplies of materials have been made conditional on the producers who use them conforming to a policy planned by the Government, for example exporting a prescribed proportion of their output, or limiting supplies of goods classed as superfluities for home consumption. And investment policy has been governed not only through the supplies of materials but through a direct licensing system.

In the Hungarian Plan, on the other hand, directly coercive powers were taken. Each producer was obliged under penalties to fulfil his programme and to contribute his quota. And capital programmes were not only subject to licensing but were to a great extent centrally directed.

Dr Kemény's study shows how this system worked in the opening period of the Plan, and how it was adapted to the general measure of nationalization adopted in the spring of 1948. He describes the administrative framework of the Plan, its relation to the controls which had been put into operation independently of it, and the expedients resorted to to meet changes of circumstances, and to make good any gaps in the original scheme. He has refrained from any attempt to describe the subsequent Five-year Plan (1950–4) of which the available information was very incomplete.

It is a pleasure to me to have this opportunity of commending a study which I believe to be a substantial contribution to our knowledge of economic conditions in Eastern Europe at the present time and to an understanding of the general problem of the methods of economic planning.

R. G. HAWTREY
Henry Price Professor of International Economics at Chatham House.

June 1951

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AUTHOR'S PREFACE

In Eastern Europe events moved very fast during the post-war period. The collapse of the Nazi rule evoked hopes in the liberated peoples. It seemed then that the opportunity had come to rebuild their national life along democratic lines. This hope appeared the more founded as in the new configuration the forces retarding or opposing political and social reforms from within were paralysed, if they had not entirely vanished.

It was not unreasonable to assume in the early post-war period that political and economic reconstruction in Eastern Europe could be based on some form of understanding between Soviet Russia and the Western Democracies, the Powers which through common efforts fought and defeated Hitlerism. The real meaning of 'liberation' by the Russian armies could not in its full consequence be predicted in 1945. At that time it would have been bold to prophesy that the countries east of the Stettin-Trieste line would be subjected to Russian domination and that the nations of that important part of Europe would, regardless of their own will, be governed by handful teams of Moscovites on totalitarian lines.

As it happened, political and social reorientation based on democratic principles was but a passing period. The Hungarian Three-year Plan was a product of this phase of development. It was the expression of economic democracy as conceived in Hungary during the early post-war years. By summing up my observations and personal experiences I have tried to show how it came about that the Plan was launched and how the first version worked within the limits of its short duration. Though short-lived, the promising start of the original Plan may be of some interest for students of economic planning. For the rest my task was to describe the switch-over to another kind of planning governed on an increasing scale by totalitarian methods.

Behind this change in the ways of planning stands, in a broader aspect, the transformation of the political setting, involving the tragedy of a nation which, hardly liberated from Nazi oppression, is now being subjugated by the rulers of the Kremlin.

I am much indebted to Chatham House and the Rockefeller Foundation for enabling me to carry out this study.

I owe special thanks to Professor R. G. Hawtrey of the Royal

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Institute of International Affairs for giving in the course of his detailed comments valuable suggestions which improved my work and also for undertaking the final revision of my manuscript. I wish to express my thanks to Mr A. Stein and other Hungarian industrial experts now in London, who supplied me with details on planning of individual concerns. I am indebted too to Miss E. Wiskemann and Mr A. Powell for assistance in the original writing of the English text, and to Miss M. Leigh for preparing the work for the printer.

G. K.

August 1951

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CHAPTER I

ECONOMIC AND SOCIAL BACKGROUND

THE purpose of this work is to describe and analyse the meaning of economic planning in Hungary in the years 1947–9 as a typical instance of planning under conditions then prevailing in Eastern Europe. These conditions differ distinctly from those in Soviet Russia on the one hand and from those of planning as understood in Western Europe on the other. That nationalization of industries had been carried out somewhat further in Hungary than in England or France was not the essential difference, but when the Plan came to be adopted in Hungary, it was based on direct coercive powers, such as the Western countries would not resort to for such a purpose. When planning was started in Hungary, the nationalized section consisted of mining, heavy industry, power production, and big banking. To these might be added transport and public utilities, which already before the war had been run by Government agencies or local authorities. Within eight months of the Plan starting, almost the whole of manufacturing industry and the entire wholesale trade were incorporated into public ownership. Even in these later stages of nationalization private enterprise remained important. Besides handicrafts and retail trade, it included agriculture; farm production was carried on in individually-owned peasant holdings numbering some 2 million. Thus the administrative task of the planning authorities was twofold. They had to exercise a direct control in the nationalized sphere and at the same time to regulate private enterprise by elaborate indirect methods of control.

The economy which had to be moulded by the Hungarian Three-year Plan had not only been worn down by German military exploitation, by direct war damage, and by dismantling, but even before the war had been of limited efficiency. In productivity of labour and national income, Hungary, while ranking far behind the nations of Western Europe, made a relatively favourable comparison with the peoples of South-eastern Europe. For 1938 income per head in U.S. dollars was estimated in Hungary at $112, in comparison with $378 in the United Kingdom, $337 in Germany, $236 in France, and $176 in Czechoslovakia, and against $104 in Poland and only $68 in Bulgaria.[1]

[1] U.N., Economic Commission for Europe, *Economic Survey of Europe in 1948* (Geneva, 1949), p. 235.

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Hungary shared the lot of other countries in South-eastern Europe in that surplus agrarian population was a fundamental feature of her economic and social life. The density of agricultural population, as measured by the number of people dependent on agriculture per square kilometre of arable land equivalent, was 63·1 in Hungary against 28·18 in France and 33·9 in Great Britain.[1] As the countries with low areas per cultivator generally also have low yields per acre, agriculture was unable to provide economic employment for a population of that density. The situation was greatly aggravated by the uneven distribution of land. Large units of over 700 acres comprised almost one-third of the whole agricultural area. The big and very big estates—quite a number of them extending to 7,000 acres and more—were the main suppliers of the grain surplus of the country. The preponderance of grain growing implied, however, a relatively low demand for hands per acre cultivated. According to expert opinion the under-employment of the population engaged in agriculture amounted to about 25 per cent.

During the inter-war period industry was able to absorb but a fraction of the excess man-power at the then rate of progress of industrialization. There resulted a constant pressure of supply on the labour market, and an income distribution correspondingly unfavourable to the wage-earners.

Employers in industry took advantage of the low wage-level and of the fact that Hungarian workers readily adapt themselves to industrial work and acquire the technical skill needed in different branches of manufacture. The old-established Hungarian industries, like engineering and food processing, laboured under the disadvantage of having been established to meet the needs of the larger national market which had been secured to them until the disruption of the Habsburg Monarchy. Different branches of engineering had supplied Greater Hungary with railway material, agricultural machinery, and certain kinds of industrial equipment, while food processing industries, in particular, flour mills, had been suppliers of the whole Monarchy. These industries, reluctant to face realities, had to suffer a protracted process of adaptation.

On the other hand new industries, favoured by the change of circumstances, developed. The expansion in the textile, electrical, and chemical industries was the most remarkable. On the whole, the new enterprises recorded good results both in

[1] Wilbert E. Moore, *Economic Demography of Eastern and Southern Europe* (Geneva, League of Nations, 1945), pp. 197–201; the arable land equivalent is calculated according to the following proportions: arable land, 100; orchard and garden lands, 300; meadows, 40; and pastures, 20.

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technical quality and in commercial organization. But they were growing in an atmosphere of protectionism, intensified in the thirties by a system of exchange regulations and import quotas, and they became dependent, with few exceptions, on a narrow national market. Consequently the competitive spirit was alien to the Hungarian entrepreneur. He did not naturally think of extending markets by reducing costs and prices, and was rather monopolistically minded, bent on securing profits by charging high prices. Thus the tendency, then prevailing internationally, of industrial and agricultural prices to diverge to the disadvantage of the latter, had been accentuated. These developments furthered industrial expansion, enabling industrialists to extend their capital by ploughing back considerable profits. In the absence of a capital market this was virtually the only way of financing. High industrial profits, however, caused discord, sharpened antagonism between the different classes of society, and made industry and industrial capitalism unpopular.

Industrial development implied decreasing imports of finished products. But Hungarian industry was, as it still is, largely dependent on imported raw materials, particularly on imports of timber, metals, and cotton. Industrial production cannot be carried on unless the necessary materials can be paid for by exports. The exports had, moreover, to cover the deficit in the invisible items of the balance of payments. On the average of the period 1933–7, 44 per cent of the total imports consisted of raw materials, 29 per cent of semi-finished products, and 27 per cent of wholly manufactured goods. Of exports, roughly 60 per cent were unprocessed food—wheat, cattle, pigs, poultry—and raw materials, 10 per cent semi-finished products, and 30 per cent manufactured articles. During the period in question exports amounted to about 12 to 13 per cent of total national production.

The productive capacity of Hungarian industry was enlarged between 1938 and 1943 by the launching of a public investment programme. Yet the consumptive power of the country was not extended: it was, in fact, contracted by the steadily increasing inflation. The expansion of industry during these years was, of course, part of the effort of rearmament, and was also intended to feed the insatiable appetite of the Third Reich.

The war made inroads on the country's enlarged industrial capacity through bombing, through damage inflicted during the campaign of 1944–5, and through Russian dismantling in the first phase of the occupation. It was not capacity, however, which set limits to production after the end of the war. The decisive limitation was the lack of coal and raw materials along

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433 with the disruption of transport and the breakdown of the whole fabric of public administration.

Official figures compare industrial activity before and after the war as follows:

	1945	*1938*
Total number of factories*	4,341	3,990
out of which		
working with over 70 per cent capacity	186	1,229
working at 31–70 per cent capacity	1,062	1,916
working under 30 per cent capacity	1,984	486
completely out of work	1,109	89

* Plants employing more than twenty workers when in full swing.

A further factor gravely impairing output was the lack of labour discipline, while food conditions were so miserable in the first post-war year as to make the labourers physically unable to perform regular work.

[316] In 1945 coal output, with about the same personnel in the mines as in 1938, fell to roughly a half of the pre-war achievement. In that year aggregate man-hours in manufactures were roughly 50 per cent of the pre-war level.[1]

[241] In agriculture the bread-grain crop of 1945 was approxi-
[231] mately a third of a normal harvest. In livestock heavy war damage had been suffered, though official statements, according to which over 40 per cent of cattle and 60 per cent of the pig population had been lost, were thought by some experts to be rather exaggerated. Recovery in agriculture was necessarily slow, and adverse conditions for cultivation (lack of draught animals and of tractors, as well as of fertilizers), coupled with a sequence of droughts, played havoc with successive crops.

In industry the process of restoration started as soon as wholesale dismantling had ceased. Industrialists took advantage of credits in a rapidly depreciating currency to rebuild and, if possible, to modernize their plants. As to the efficiency of labour, the financial reorganization, which put an end to a galloping inflation in August 1946, provided a basis for the gradual raising of industrial output per head.

[1] The following figures cast some light on the development and the structure of manufacturing industry:

	Power equipment in 1,000 H.P.			Number of workers employed (yearly averages)	
	1938	*1943*	*1945*	*1938*	*1945*
Total	1,552	1,965	1,746*	288,000	179,000
Iron, metal, and engineering	293			91,000	71,000
Power generating	727			7,000	8,000
Textile	98			64,000	28,000
Food	223			34,000	24,000
Chemical	71			16,000	13,000

* Approximate figure.

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In order to improve industrial production, the problem of foreign trade had to be tackled. Dislocation brought about by the war led to a complete breakdown of international trade. In 1946 the volume of imports as well as of exports amounted to about one-sixth of the pre-war level.

The efforts in securing raw materials scored some success. In 1947 imports were raised to about half of the pre-war volume, yet exports did not exceed one-quarter. There were remarkable shifts in the composition of foreign trade, reflecting the changed conditions. Imports appear to have been restricted to raw materials and industrial equipment, while manufactured goods figured as the main items of exports in consequence of the shortage in all kinds of farm products.

Two major factors (war losses and drought) affecting agricultural production have been mentioned. There was a third one, a direct consequence of the political landslide: the breaking up of the big estates and of the big holdings of which they mostly consisted. In their place several hundred thousand of new peasant holdings emerged.[1] This radical change, brought about by the land reform of 1945, inevitably caused a lessening of the marketable portion of farm produce. The land reform was bound to alter the old pattern of agricultural production. In its wake the preponderance of grain growing was expected to give way to a more diversified cultivation. Corresponding with these changes in the composition of production, the exportable surplus of cereals was destined to cease and was to be replaced by the products of more labour-intensive peasant farming. But the process of recovery in farming being necessarily slow, agriculture was overtaken by the extension of industrial production even before the Plan was started. Consequently farming lost its previous importance as a main source of exports.

Post-war reconstruction was to be achieved under unprecedented conditions. After the collapse of the Fascist regime, public services had to be rebuilt and work discipline restored under Russian occupation in a radically changed social atmosphere. Economic policy was bound to reckon with new developments in agriculture and industry as well as with the necessity of a reorientation of foreign trade. Last but not least there was the urgent task of halting inflation, as financial disorder attained proportions which endangered the entire social and economic fabric.

[1] This involved also the splitting up of production units, the large estates having been run mostly as large-scale farms and only exceptionally in the form of small tenancies.

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CHAPTER II

THE ANTECEDENTS OF PLANNING

THE ECONOMIC FRAMEWORK

668 THE shaping of the post-war policies of Hungary goes back to the time of German occupation. It was in the underground Resistance movement, where three parties co-operated, that the first outlines of a programme were drawn up. The co-operating parties were the Smallholders, the Social-Democrats, and the Communists. By the end of 1944, when the Germans had been expelled from the Eastern half of the country, the National Independence Front was set up, consisting of the three parties in the Resistance movement, the newly emerged National Peasant Party, the Democratic Party, and of representatives of the Free trade unions. The main lines of policy were laid down in a Programme of the National Independence Front issued in December 1944. This statement of policy expresses adherence to democratic principles, and affirms the reorientation of foreign policy. In the social and economic field the outstanding points were: land reform, public control over industrial monopolies, and prevention of unemployment. One clause of the Programme points, though cautiously, towards economic planning in claiming that reconstruction should be effected within the framework of a Government-sponsored plan.

642 The National Independence Front formed the provisional Government in December 1944 and public administration was reorganized through the local branches of the Front. Following the general elections in November 1945 a coalition consisting of four parties, the Smallholders, the National Peasant Party, the Social-Democrats, and the Communists, was established. This coalition, surviving the elections of August 1947, was the basis of the successive Cabinets until the first quarter of 1948.

[423] 471 In accordance with the Programme of the National Independence Front, in agriculture the big and medium-sized estates were divided into small holdings, in industry such branches as were monopolistic in character were nationalized. Even at the time, when the whole range of light industries and engineering, except for two big concerns, wholesale trade, and naturally the retail trade and small-scale industry, were still left in the hands of private enterprise, State interference and State influence were far-reaching. Not only was the character of a war economy

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maintained, but, as a result of reparations, the Government continued to be the greatest customer of industry. Hungary's economy, moreover, was directly affected by the growing influence of the Soviet Union, whose claim to take possession of all former German property in the country had been recognized at Potsdam. Owing to the decision taken at Potsdam, and the extremely arbitrary interpretation of the agreement by the Russian occupation authorities, Moscow obtained a foothold in Hungarian banking, insurance, Danubian navigation, and coal mining, as well as in numerous engineering, chemical, and textile enterprises. Her influence was further strengthened by an agreement to set up joint Russian-Hungarian companies. This was signed early in 1946, and, when subsequently implemented, secured to the Soviet Union a practical monopoly of air and river traffic and of aluminium production.

Private enterprise was naturally confronted with fundamentally changed political conditions. Up to 1945 the semi-feudal structure of society, with the great landlords in control and with industrial and financial interests exercising a strong influence on the course of economic policy, had not entirely vanished, though since the thirties, this influence had been undermined by the growing pressure of the demagogic petty-bourgeois supporters of fascism. As from 1945, however, with the old landowner class disappearing as an economic and political factor, there was a complete shift of the centre of gravity in politics.

Although in 1946–7 indications were not lacking as to whither the road might lead, it did not yet seem definitely decided that everything having affinity with the Western pattern of life was to be suppressed in Hungary. The country was governed by a coalition based on democratic elections. Communist influence was, of course, stronger than was justified by the numerical importance of the party, for the party enjoyed the support of the occupying Power. At the outset, however, the Communists were not altogether uncooperative. Only in the spring of 1947, when the first so-called conspiracy was discovered, did they reveal what methods they were ready to employ to reduce the role of their partners within the coalition to a sham.

Once the agrarian reform of 1945 was adopted, the Communist leaders gave repeated assurances that the private ownership of land would thenceforth be respected. The peasants spared no effort to produce maximum results, despite conditions unfavourable for regular farmwork. The industrialists also appeared ready to play their part in reconstruction, and were

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461 eager both to reconstruct their plants and to restore their former international connexions. At that time it did not yet seem dangerous either for business men or for politicians to cultivate Western contacts.

463 As to the structure of Hungarian society, roughly half of the population was before the war dependent on agriculture, one-quarter was engaged in mining, manufactures, and handicrafts, and about 10 per cent in commerce, banking, and communications.[1] Under the impact of post-war developments important changes took place within the various social groups. Yet the proportion of agricultural population had hardly changed to an appreciable extent until 1947.[2]

423 241 The structure of agriculture had been radically changed by the land reform of 1945 which limited agricultural holdings to the size of 100 and in certain defined cases to 200 yokes (140–280 acres). Some 1,500 big and mammoth estates and a considerable number of medium-sized holdings (200 to 1,000 yokes), roughly 30 per cent of the cultivated area, were transformed into small units. Property was assigned to 370,000 landless labourers while some 270,000 dwarf lots were enlarged.

241 The dislocation consequent on this sudden change in structure was not overcome during the two years that elapsed between the land reform and the Three-year Plan of 1947. The process of implementing the reform by providing the new farmers with the requisites for the economic cultivation of their holdings, was at its very initial stage. Some expedients of mutual assistance among the farmers were evolved to meet the shortage [231] of machinery and draught animals. The lack of livestock was an aftermath of the war, stock-raising being the part of the economy which had suffered most heavily from the war. Animal husbandry had been a fairly well developed branch of farming in pre-war Hungary. It was mainly due to this fact permitting a more plentiful use of manure that average yields per acre in agriculture were higher than in other countries of South-eastern Europe. Reduced livestock, the reconstitution of which could but be gradual, meant lower agricultural output, and the insufficient supply of implements and machinery caused a setback in the mechanization of agriculture, which, in any case, in view of cheap labour, had made little progress even before the war.

468 In manufacturing industry new forms of industrial relations in public and private concerns had to be adopted. The position of the trade unions was substantially strengthened. Collective

[1] See further details on the census of 1941 in the Appendix, Table II.

[2] The first post-war census applies to the end of 1948. No figures were released, however, except some details on small-scale industry and commerce.

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wage agreements, which before the war were settled by voluntary understanding between employers and work-people, became compulsory. They had to be negotiated by the respective trade unions and the employers' associations, and were subject to approval by the authorities. Another feature of altered conditions was the establishment of workers' councils in the factories. Their task was to watch over working conditions and the execution of social-welfare measures within the factories. Also delegates of these councils were entitled to attend the meetings of boards of directors and to inspect books.

Of the working population scheduled under industry a high proportion was engaged in handicrafts. According to the census of 1941, small-scale industry comprised 11 per cent of the active working population out of 23·5 per cent for industry as a whole. At the same time manufactures (i.e. units with more than twenty employees) contributed about 29 per cent, and small-scale industry 11·5 per cent to the national income, as estimated by the Institute of Economic Research. After the war the relative importance of handicrafts and small-scale industry was declining. Demand for their quality products diminished. Moreover, their raw-material supplies were deficient; priority was given to the requirements of large-scale industry, and, in particular, of those branches producing capital goods.

An outstanding feature of post-war economic developments was the levelling of inequalities of incomes with a considerably diminished national income. This naturally was closely connected with changes in the social structure. Big incomes from the ownership of land disappeared, but so did most of those formerly derived from other forms of property. Deposits and other classes of money claims were wiped out by the inflation, and the values of interest-bearing securities melted away. As to house property, its ownership remained, but the yield was practically nationalized, as after taxation nothing was left out of the controlled rent. Thus the rentier class was eliminated. In the census of 1941 it figures together with the pensioners, and the share of this composite group of the total population was then slightly over 4 per cent. In an economy of scarcity relatively big incomes were still earned by industrialists and dealers by evading price control. Outside this limited circle the levelling of incomes affected all classes of society, including the workers. The margin between the wages of skilled and unskilled, which had been substantial in pre-war Hungary, was markedly narrowed.

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MONETARY REFORM

458 In the economic history of post-war Hungary August 1946 was a turning point. The country was drifting towards complete anarchy under the impact of an inflation the speed of which during the first half of 1946 surpassed anything hitherto experienced in this field. Its effects on the currency were devastating; it overthrew the entire price structure. In some respects the heavy strain placed upon the whole economic and social fabric by the intolerable wave of inflation helped to clear away difficulties in the way of the coming monetary reform. The accelerated collapse of the monetary system reinforced the intense desire for a return to a state of normality. Thus a psychologically favourable atmosphere for a new currency was created. Nevertheless it was a dangerous gamble with anarchy.

652 From a psychological point of view it was also relevant that the gold and foreign exchange reserves of the Hungarian National Bank (representing the value of 32 million dollars), which had been removed by the retreating Germans, were traced in the United States Occupation Zone of Germany, and returned in time by the United States authorities. Skilful propaganda advertised that the new currency would be backed by gold reserves at a pre-war rate (with a minimum of 25 per cent). The new monetary unit was defined in terms of fine gold contents,[1] but convertibility into gold was, of course, neither established nor ever intended. The obligation was imposed on the National Bank to see to the stability of the currency. The denomination of the new monetary unit—forint (florin)—was chosen so as to recall the tradition of the stable florin of Habsburg days, which was still remembered by the older generation.

At the outset it was the restricted supply of the new currency that induced the public to feel confidence in it. The value of the huge amount of pengö notes was practically annihilated, as their depreciation went far ahead of the pace of their issue. The supply of money depended, therefore, on the issue of forint notes. There was an initial issue of 300 million, to give the Treasury a breathing space until the reform of taxation became operative. The amount of 300 million forint was but a fraction of monetary requirements on the basis of prices and wages, which had been fixed in advance by reference to the price structure in 1938 as a
652 starting point. Nevertheless strict deflationary credit practices
457 were maintained at the beginning, compelling trade and industry to sell off stocks and also reserves of foreign exchange. Holders of foreign exchange were encouraged to offer it to the

[1] 1 forint = 0·0757 gramme of fine gold.

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National Bank by an amnesty put in force for a limited period, relieving them from the penalty for omitting to do so prior to the monetary reform. Draconic penalties were at the same time announced for any new infringement of the exchange regulations.

The psychological and technical devices worked. It soon became evident that the farmers accepted the new money. Something like a normal interchange between the urban and agricultural sectors of the community, an interchange which had been badly shaken by the preceding monetary disorder, was re-established.

Stabilization was, of course, backed by budgetary measures. A comprehensive fiscal reform of taxation, with the aim of restoring a budgetary balance, had been prepared in advance, and was evolved on broad lines out of the pre-war taxation system. Each source of revenue was to be exploited to the utmost.

Accordingly, rates of taxation were raised considerably as compared with those in force prior to the war. This relates both to the income and property taxes and to those on consumption. Incomes exceeding 1,200 forint a year (£24 though higher in purchasing power than in England) were liable to income tax. The rate was fixed at 2 per cent in the lowest range. Incomes of 10,000 forint are taxed at a rate of 6·7 per cent. The income tax reaches maximum rates of 70 per cent for income from work and 80 per cent for income from property. These highest rates weigh upon incomes exceeding 84,000 forint. A surtax with rates ranging from 15 to 75 per cent was payable on earnings (net of tax) above 18,000 forint. An increased tax on house rent amounted to 60–80 per cent of the gross rent, leaving only 20 to 40 to cover upkeep. The purchase tax was raised from the pre-war range of 2–5 per cent to 3–10 per cent. The company tax had to be paid according to turnover, irrespectively of whether there was any net profit. The pressure placed on the taxpayer may be seen from the fact that the interest on tax arrears has been replaced by a subsidiary tax at a *monthly* rate of 10 per cent. These efforts, coupled with a severe restriction of current expenditure on goods and services, produced a marked improvement of the budgetary position. Yet the burden of reparations amounting to 1,436 million forint out of a total expenditure of 3,701 million, prevented the Government from securing a real balance. The improvement attained after the first transition period of reorganized tax administration is illustrated by the rise of the contribution of taxes and other current revenue to total receipts from only 18 per cent in August and 47 per cent in September 1946, to an average of 78 per cent for the whole

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[651] budget year. Eventually 360 million forint had to be raised by 652 borrowing (60 million through the Postal Savings Bank in addition to the initial National Bank loan of 300 million) and 450 million from other extraordinary sources of revenue.[1]

The supply of currency, as reflected in the issue of bank-notes, is shown by the following figures:

	Million forint
31 August 1946	355·6
30 September 1946	606·6
31 January 1947	1,016·8
30 April 1947	1,258·2
31 July 1947	1,592·2

652 The renewed expansion of the circulation might prompt the 457 question whether the public, with the recollection of their recent experiences, would once again begin to distrust the currency. The stabilization was strictly confined to the internal value of money. In Hungary a system of exchange control had been in force as far back as 1931. This control naturally was taken over and maintained when an economy of shortage supervened at the end of the war. Transactions arising out of foreign trade were based on official parity rates in conformity with bilateral agreements.

In spite of heavy penalties a black market for foreign exchange and gold developed with rising rates. Apart from prosecuting the participants, in so far as they could be caught, the authorities did not interfere with the black market. There was, in particular, no direct intervention to influence the rates of this market. They were regarded by the authorities as isolated phenomena, unlikely to affect the general economic situation. This view was on the whole justified, for transactions in the black market were negligible.

652 However, by the autumn of 1946 an additional difficulty 458 arose, endangering the balance between the amount of currency and the stream of goods. The poor harvest and the deficiencies of administration resulted in an acute food shortage and soaring prices. These price increases undermined confidence in the monetary reform, and black-market rates of exchange rose correspondingly. The upward movement was halted by a temporary credit restriction. A similar stiffening of the position developed in March 1947 in connexion with new difficulties in food supplies. It was checked by the same weapon of short-lived deflation. This was effected by enforcing the maximum limit of the note issue and by giving instructions to the National Bank

[1] These consisted mainly in the profit from the revaluation of the National Bank gold reserve and in the proceeds of the sale of goods obtained within the framework of UNRRA-relief and the U.S.A. loan in kind.

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to apply stricter principles of selection, especially in regard to the maturity of bills discounted. Though in both cases only temporary success could be achieved, the Government managed to demonstrate that not only upward movements but also setbacks in commodity prices and in exchange rates on the black market might occur. This proved to be sufficient to stave off an inflationary disposition. The effects of the uneasy balance established were not far-reaching enough to stimulate saving and accumulation of capital in the form of money. It was not monetary developments, however, that primarily impaired private savings, but much rather the extremely low level of incomes and the lack of political confidence on the part of the limited number of persons with higher incomes. Yet the currency created by the reform of August 1946 performed its functions as a medium of exchange satisfactorily. No doubt inflationary pressure was present in 1946–7 as well as later on, more intensely in the event of poor crops and less so when food supplies were adequate.

Summing up, the monetary reform did not succeed in creating a completely stable currency. But it did end a period of fantastic inflationary excesses by establishing a financial system kept under control, and it presented the planners with an instrument which, though far from perfect, was nevertheless useful enough for their purpose. A basis for economic calculation was created, though in the case of long-term plans allowance had still to be made for changes in the price level. Last but not least, the new monetary system, though incomplete when measured by the stricter standards of economic theory, was, after the experience of the past, appreciated by the workers and the peasants. Beyond doubt the new currency contributed to the improvement of labour productivity. Thus the measures carried through in the field of finance in 1946–7 were with good reason regarded as a preparatory step for the introduction of a planned economy.

A NEW PRICE STRUCTURE—DEFICIENT CONTROLS

In view of acute shortages, the fabric of the economic control introduced during the war was maintained in post-war Hungary. Exchange regulations were coupled with a system of import quotas. The supply of raw materials, whether foreign or domestic, was allocated among users by the authorities. In 1946–7 rationing comprised all important sorts of food and certain other products like domestic fuel and soap. But, with supplies quite inadequate, food rations were fixed at levels covering

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only a fraction of normal needs. According to the statements of the Institute of Economic Research, rations varied from month to month between 24 and 40 per cent of requirements.[1] This supply position necessarily undermined price control. Its barriers were broken through with an almost elemental force, and a black market for food emerged, with prices rising to four or fivefold those officially fixed. Aware of their inability to cope with the situation, the authorities gradually released a number of important products like maize, potatoes, eggs, poultry, fat, and pork from price control.

Apart from shortage and the inadequacies of administration, price control was rendered difficult by the artificial price structure. The Hungarian Government, when deciding upon the price policy to be pursued after the introduction of the new currency, had been confronted with a peculiar task. The inflation, extravagant as it became during the second quarter of 1946, had resulted in a collapse not only of the currency but of the entire price system. A new price system had to be constructed in a sort of vacuum as from August 1946. The price structure of 1938 was largely accepted for crop products. The price of wheat was arbitrarily fixed at 40 forint per quintal, 2·1 times the pengö price in 1938. On this basis the prices of other produce were determined according to the cost scale in 1938. In view of the heavy war losses of livestock, a price multiplier exceeding that for grains was afforded for animal products. Moreover, the relation between farm prices as a whole and industrial prices, in view of the special scarcity in manufactured goods, was altered in favour of industry, and it was hoped to take advantage of the intense demand of the peasants for manufactured goods to draw off some of the surplus purchasing power. The shifts of the group indices are reflected in the following figures, indicating pengö prices for 1938 and forint prices for 1946.

	Wholesale Prices	
	1938	*August 1946*
General Index	100	400
1. Farm products	100	330
(*a*) Agricultural products	100	270
(*b*) Animal products	100	420
2. Industrial products (excluding food industry)	100	460

Thus the intention was that the price level in forint, as measured by the wholesale price index, should be fourfold the price level in 1938 expressed in pengö. Originally the pengö was defined as 1/3,800 kg. fine gold. The *de facto* devaluation following the crisis of 1931 reduced the gold value of the pengö by roughly one-third. The pengö equivalent of 1 kg. fine gold

[1] 2,400 calories for the average consumer, 3,200 for manual workers, and 4,400 for heavy workers.

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rose therefore to 5,757. By the monetary reform of 1946 13,210 435
forint were equated to 1 kg. fine gold, involving a ratio of 1 : 2·29 between pengö and forint. However, in determining the new price level a rise of world market prices (expressed in U.S. dollars) of approximately 75 per cent was assumed for the period 1938–46. The result was a multiplier of four as compared with the price level of 1938.

The price structure, as conceived at the time of the stabilization, proved just the opposite of that which the circumstances required. Though supplies of industrial goods were short, the demand for food naturally was far more urgent. Consequently the price structure imposed in August 1946 was soon swept away. Both the wholesale price index and the cost of living indicate violent changes.

	Wholesale Prices			*Cost of Living*		*Hourly Wages in Manufactures*
	Total Index	Farm Products	Industrial Materials and Products	Total	Food	
		January 1947 = 100		Aug. 1946 = 100		Jan. 1947 = 100
1946						
August	99·0	87·6	101·7	100·0	100·0	—
December	98·2	92·6	99·9	106·2	113·5	—
1947						
July	120·1	170·5	105·9	110·0	117·0	128·6

Under the pressure of shortage the prices of farm products nearly doubled during 1946–7. Industrial prices, though influenced by the increasing cost of imported raw materials, were under more effective control. Anyhow the year preceding planned economy was not a happy prelude from the point of view of the efficiency of price control.

In view of the state of prostration in the immediate post-war 434
period, achievements in the field of production and finance during the twelve months' period preceding the start of the Three-year Plan on 1 August 1947 were remarkable. Yet they were modest measured by the requirements. In spite of marked progress in the year following the monetary reform, the real national income approached only two-thirds of the pre-war level. Food supplies in this year, as calculated by the Institute of Economic Research, represented 34 per cent less in calories than supplies in 1938–9, while consumption of textiles reached, according to the same source, roughly 50 per cent of the pre-war level.[1]

[1] In addition, the pre-war standards used as bases of comparison were already low. Nutrition was, as shown by the investigation of the League of Nations, far from satisfactory. As to the consumption of manufactured goods some striking figures are given in the publication of the P.E.P., *Economic Development in S.E. Europe* (London, 1945), p. 70. According to these figures the consumption of cotton goods per head of population in Hungary was stated to have been in 1937: 2·4 kg. against 8 kg. in Western Europe; the respective figures for paper consumption were 10 and 30 kg., for sugar consumption 12·7 and 32 kg.

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433 Political tensions were growing as the economic year 1946–7 drew to a close. Still they did not interrupt the upward trend of production supported by the forces of a system of mixed economy. General economic development was encouraged by the monetary reform, the reconstruction of transport, a gradually increasing foreign trade, and improving labour productivity.

These then were the foundations on which economic planning had to build.

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CHAPTER III

INDUSTRIALIZATION AND ECONOMIC NATIONALISM AS RULING IDEAS

THE fundamental conception of the Three-year Plan of 1947 was to secure State control over the economic life of the country. It reflected a collectivist view, that the uses of the scarce resources of a shattered economy have to be co-ordinated by a central authority, so as to speed up reconstruction for the benefit of the community. The Plan was drawn up on the assumption that the investments required by it must be financed from domestic resources. The possibility of Hungary's participation in Marshall aid had already been blocked by Russia's decision when the Plan started. Thus the only source from which the assistance of Western capital could have been hoped for was excluded. If substantial amounts of capital expenditure were to be extracted from an economy with an extremely low income level, measures amounting to compulsion were needed to ensure the requisite saving.

The economic basis of the Plan when put into operation was a mixed system of private and public ownership in industry.[1] Direct public control was then extended only to monopolistic industries. The Plan accordingly provided for fitting private enterprise activities into its framework. A further extension of public ownership was not implicit in the Plan. Later it was claimed that its execution required the nationalization of the whole of large-scale and medium industry and of wholesale trade, but it is a matter of opinion whether the extension of State ownership on this wide scale or in a lesser degree was essential to secure a smooth working of the Plan. The decision to incorporate those branches of the economy into the publicly-owned section did not result from any investigation of economic expediency; it was taken in the political sphere. The requirements of effective planning supplied a convenient argument in support of resolutions already taken.

Retrospectively the Plan might easily appear as a scheme for extending heavy industrial potential and thereby serving Russian interests, its achievements in any other field being concomitants only of this dominant objective. In its later stage, when investment rose much above the anticipated level, the

[1] See below, p. 22.

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185 Plan may have assumed something of that character. But at the start the outlook was different. At any rate, after a period of privation, a serious effort had to be made to raise the standard of living, if only as a means of attaining higher efficiency. Moreover, an austerity programme, concentrating on the extension of heavy industry as its primary objective, did not fit into the political atmosphere of that initial period.

Extension in the whole field of industry strained domestic financial resources to the utmost. The redistribution of incomes and of consumption might to a moderate extent have contributed to the solution of the problem. But the solution had to be found mainly in increase of national income through enlargement of production. This call for higher production of consumer goods as well as of capital goods called in its turn for industrialization, both in the sense of expanding industry and in that of mechanizing agriculture.

464 By placing industrialization in the centre of economic policy a familiar chord was struck. It was, in fact, an axiom in Hungary in the inter-war period that only industrial expansion could solve the most urgent problem of the country, the employment of the agricultural surplus population. This question became acute after the outlet, which had been open before the World War by way of mass emigration to the United States, had been blocked. The main conditions for industrial development were present. There was a reserve of working population more than sufficient in numbers and able to adapt themselves to the conditions of industrial work. Skilled labour was in high demand, as shown by a larger margin between the wages of skilled and untrained men than is usually experienced in the Western countries. So long as the progress of industrialization was no more than gradual, this gap could be partly filled by the attraction of foremen from abroad. Nor was technical and managerial skill wanting.

135 439 [312] Of natural resources essential for industry a great part had to be imported. Coal deposits, composed largely of brown coal, are moderate compared with those of most of the industrial countries. Water-power potential is small. Ample in supply are bauxite, natural gas, and, in a lesser degree, mineral oil. High-quality coal has had to be imported to meet the requirements of metallurgy, but otherwise coal-mining has supplied industry with the quantity wanted.[1]

[1] Output 1938: roughly 9,000,000 tons; imports: 500,000 tons. Some 10 per cent of the whole output was bituminous coal of the calorific value of 12,000–13,500 British Thermal Units (compared with 14,000–16,000 B.T.U. of British bituminous coal). Otherwise brown coal was mined mostly of a calorific value of 7,000–11,000

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Cheap labour and scarce capital supplies directed industrialization towards the expansion of textile and other light industries. On the whole this line, typical for the industrialization of countries with the economic structure of Hungary, was followed during the inter-war period.

However, outside the general trend in the inter-war period there were some disturbing factors. The drive for industrialization gained a further impetus through the deterioration of the terms of trade as a result of increasing difficulties in disposing of the agricultural surplus at prices covering cost. This was due to the adverse tendency of the world market, but was aggravated by the protective measures taken by Germany, and other important consumers of Hungarian farm products, in their endeavours to approach self-sufficiency. In this atmosphere of economic nationalism the governing consideration in deciding on industrial investment projects was whether the requirements of the domestic market were or were not met by home supplies of the products concerned. The idea of 'improving' the trade balance by reducing imports of manufactured goods was gaining favour, and due consideration was not given to the broader aspects of international trade and to possibly more economic uses of resources.

A similar spirit has apparently become the guiding principle of the planners who are for the time being responsible for industrialization in South-eastern Europe. They are likely to be even more devoted to an economic philosophy inspired by nationalism than those who directed economic policy under capitalism. The present champions of industrial development blame their capitalist predecessors for having omitted to build up an adequate machine-tool and engineering industry. Preference for light industry had, it is contended, sacrificed the independence of the Hungarian economy in serving Western capitalist interests. The outstanding feature of economic policy, as professed at present, is the drive for an all-round industrial development with emphasis on heavy industry.

Thus the claim for autarky is being put forward more strongly than ever before. The insistence with which the case of heavy industry is advocated justifies the suspicion that it is supported by considerations other than purely economic. In the eyes of Communist politicians independence of the West in sectors of

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B.T.U. Only a small part of this portion of coal production was low-grade lignite (3,500–4,500 B.T.U.) used locally, and, on an increasing scale, to produce thermal electric power. Brown coal of average quality was generally used as fuel for manufacturing industry, railways, and agriculture. As shown by experience during the war, production could be considerably raised above the 1938 level.

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433 production important for defence may outweigh economic advantages. At the same time the division of Europe obstructs a large-scale supply of capital goods from Western countries, so that an extension of the heavy industries appears necessary for carrying out economic plans, even apart from considerations of defence.

Still the question remains unanswered why industrialization is being pushed along strictly national lines even within the Russian sphere of influence. The Hungarian Three-year Plan [439] is essentially a national Plan. Between the planned economy of Hungary and that of the other countries within the Russian orbit links were established by bilateral trade pacts and not by co-ordinated planning on a regional scale. Nevertheless, the impact of the trade agreements on the economies concerned should not be underestimated. One main argument put forward for extending the heavy industries in Hungary was that the Soviet Union would be prepared to take a considerable part of the output. Thus Russia's shortage in these products was the criterion for the degree of expansion. The question was hardly raised whether large investments for extending heavy industry represented the best utilization of resources. The advantages of an economic division of labour to the welfare and defence of Hungary, as in the other satellite countries, were subordinated to the short-term interests of the Soviet Union.

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CHAPTER IV

THE START IN PLANNING

BASIC CONDITIONS

THE idea of planning arose in Hungary from the doctrines professed by the Socialist and Communist Parties alike. In a community suffering from shortage of supplies and in need of capital, systematic planning in the allocation of resources appeared desirable to many who had no sympathy with collectivist doctrines. It was the problem of priorities in investment that was the principal subject of debate during the preliminary discussions. At the same time the argument was vigorously put forward that the adoption of planning would accelerate reconstruction, and might ensure the attainment of pre-war standards of consumption by the end of the three-year period. The special emphasis on the equipment of the capital-goods industries within the investment programme was not considered unnatural. The provision of plant, etc., for re-equipping industry and transport was, in fact, urgent. And heavy industry had also to produce the bulk of the goods for reparations. Finally commitments under a five-year pact with Yugoslavia had to be taken into account. This pact had been concluded in order to secure supplies of raw materials against the delivery of factory equipment which was needed for the industrialization of Yugoslavia.[1]

The Three-year Plan of 1947 started at a moment of an extremely low level of production. The targets, if viewed by reference to the changes from year to year, may have appeared ambitious, yet the ultimate objective, that of restoring the average living standards of pre-war Hungary, was modest enough. According to the Plan agricultural production even after the elapse of three years would fall short of that of 1938; industrial output, however, was supposed to fill the gap. Thus industry was to gain in relative importance. The Three-year Plan was in its core a plan for industrialization. It provided at the same time, in the belief of its originators, the only means of raising agriculture to a higher stage of technical development. But the mechanization of agriculture was a secondary objective only. The Plan concentrated the productive effort, for economic as well as for political reasons, on making a start at converting a

[1] The execution of this pact was suspended in mid-1948, following the rupture of the Cominform countries with the Tito regime.

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185 society still mainly agricultural in structure into one highly industrialized.

471 At the time when the Three-year Plan was conceived and started, the structure of Hungarian industry was by and large 655 similar to that of any Western country which had nationalized former private monopolies. Important steps had been taken during the preceding period towards shaping this structure. Coal mining was nationalized in January 1946, heavy industry —metallurgy and the two leading engineering concerns with their subsidiaries—by the end of that year. The nationalization of the electric power stations was enacted in 1946 and that of long-distance power lines early in 1947. That private monopolies were to be superseded by public control was a principle supported by all the parties participating in the Government. It had, in particular, the endorsement of the Smallholders' Party, which then held the majority within the governing coalition. This party favoured private ownership except of capitalistic monopolies.

The decision to take over the big banks into public ownership was in line too with the principle of nationalizing monopolies. Five leading banks controlled about 80 per cent of the whole banking business, and, through a system of ramified participation, commanded considerable influence in industry. Although the law on bank nationalization, including that of the National Bank, was passed only late in 1947, State control was virtually introduced in June of that year, that is, before the start of the Plan. In mining and industry the nationalized portion was run on the principle of rigid centralization. The former independent enterprises in coal mining on the one hand and in heavy industry on the other were placed under central administrative bodies. In banking a more indirect method was chosen. A Board was set up for the co-ordination of activities.

In 1947, when Hungary embarked on planned economy, the publicly-owned section comprised almost the whole of mining, approximately 35 per cent of manufactures, 80 per cent of banking, and the whole of rail and river communications. State-ownership of railways and river shipping had existed before the war. In reviewing the relative importance of private and public enterprise, the head of the National Planning Department stated that the share of the latter in national net production averaged 35 per cent in the course of 1947–8, reaching 43 per cent by the end of this period. This statement, in view of the radical changes in the ownership of industry in spring 1948, implied that at the inception of the Plan the share of the publicly-owned section in national production was less than one-third. It was understood then in political circles that

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the economic functions acquired so far by the Government, combined with the power to control credit, investment, raw-material allocations, prices, and wages, would suffice to give effect to the Plan without further measures of nationalization. There is evidence that even the leaders of the Communist Party shared this opinion for the practical reason, if not for any other, that further nationalization could not be coped with by the bureaucratic apparatus.

In post-war Hungary, naturally enough for an economy of shortage, war-time controls were maintained.[1] Beyond that, as soon as the monetary reform had been accomplished, certain steps pointing towards a planned economy were taken.

In view of the extremely low capital resources, the authorities decided to introduce a system of credit rationing. An inter-departmental committee was set up under the auspices of the Ministry of Finance to decide the allocation of credit, in co-operation with representatives of the National Bank. The task of this committee was to make the amounts of credit granted conform to the ceiling prescribed for the issue of bank-notes. The ceiling for the note circulation was from time to time fixed by the Supreme Economic Council. Lendings of the National Bank were completely, those of the commercial banks partly, subject to the decisions of the committee. These decisions were guided by the prevailing opinion, based on general economic considerations, as to the urgency of the credit. To mitigate the rigidity of the system, a certain percentage (though gradually decreasing) of the resources of the commercial banks could be lent without central control.

Another agency which was in a position to supplant the mechanism of the market was the Raw Materials Board. The Board, in virtue of its authority to decide on the allocation of fuel and raw materials, whether they were home produced or imported, exercised wide powers of tightening control. However, the manner in which the Board used its powers did not amount to systematic planning.

The idea of the introduction of planned economy first began to take shape at the end of 1946. Communists and Socialists did not confine themselves to advocating the idea. Both parties produced draft plans, making use of expert advice, with the aid of departmental staffs placed at their disposal. The Communists asked, of course, an expert from Russia for assistance, while the Social-Democrats profited by the expert knowledge of an economist of Western outlook.[2]

[1] See p. 13.

[2] The expert of the Communist Party was E. Varga, that of the Social-Democratic Party, Nicholas Káldor.

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The Socialist Plan chose the needs of the population as a starting point and looked towards the re-establishment of the pre-war level of consumption for the working population. The aim at the same time was to bring about certain structural changes in the economy, in order to lay a foundation for successive plans of general economic expansion. In order to realize the objectives of the Plan, it was deemed necessary to develop key industries, which would provide a basis for the extension of consumer-goods industries and for the mechanization of agriculture.

To this end, the Plan determined which industries should be assigned priority for extension. Technical experts were then invited to reconcile the objectives set with existing industrial capacity, and to determine the capital investment and manpower required to fulfil the production programme. As to the methods of financing the investment planned, the idea was that the nationalized concerns should be financed by the Government, while capital for private industry was mainly to be provided by the private concerns. It was, however, suggested that the Government should also, if necessary, finance private investment.

Whether financed by the Government or from private resources, investments were to be carried out within the framework of the Plan. Arrangements between the Government and industrial groups were supposed to regulate the scale and direction of investment, thus excluding capital expenditure not conforming with the Plan. These arrangements were at the same time to provide for carrying through certain measures of rationalization on the part of the industries.

Regarding the supply of imported raw materials, the Plan presupposed that exports even at a minimum could pay for the quantities required. It was calculated that, besides these raw materials and a moderate amount of finished goods, industrial equipment to a value of roughly 2,000 million forint was to be imported in order to fulfil the investment programme over three years. It was suggested that the imports of equipment should be financed by foreign loans. Hopes were expressed that the amount mentioned would represent the maximum of foreign-loan requirements, as it was assumed that the speeding up of production by the Plan could provide for exports on a scale covering also some part of imports of industrial equipment. At that time Marshall aid had not yet been either offered or refused. The official Government Plan was drawn up from the elements included in the draft-plans of the Social-Democratic and the Communist Parties, though in some fundamental questions with more concessions to the Communists. It was possible

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to merge the two drafts without great difficulties as the Communist Plan was also adapted in its structure to the system of mixed economy.

The Socialist Plan included gross capital outlay of roughly 6,700 million forint. Replacements being some 1,600 million, the net capital outlay would be 5,100 million. The Government Plan, following rather the Communist Plan, included a net capital outlay of 6,585 million, but did not reckon in its estimates with the burden loaded on the national income by the necessity of accumulating stocks. The Socialist Plan laid less emphasis on heavy industry and contemplated a more rapid extension of light industry than the Government Plan.

Besides capital outlay the Socialist Plan estimated that the other form of capital formation, the replenishment and extension of stocks, would need 6,500 million. Towards the total not investment of 11,600 million, it was hoped that about 2,000 million would be financed by foreign loans, leaving about 9,600 million to be raised at home.

The Government Plan looked forward to a more considerable improvement in the productivity of labour than the Socialist Plan, and therefore did not reckon on so great an increase in numbers employed.

LEGAL POWERS TO ENFORCE THE PLAN

It was by the Act of July 1947 for the Implementation of the Three-year Plan that economic planning as from 1 August of that year was introduced in Hungary. The six clauses of the Act ordered amongst other things: 'Every Hungarian national in Hungary and every foreign national having a working permit in Hungary shall be required by the Government, within the limits of the decrees issued on the basis of the present Act, to carry the Plan into effect'. Clause III authorized the Government to establish a Planning Board and a National Planning Department for the elaboration of the Plan and for controlling the work of carrying it into effect. It may be mentioned that the Planning Board never acquired a leading role. It was but an inter-departmental advisory body.[1] The power of decision was vested in the Supreme Economic Council, and the National Planning Department wielded the executive power. The Government also were empowered to determine by decree the penalties for any breach of the regulations issued in pursuance of the Plan. Jurisdiction over such offences was given to a special court with accelerated procedure.

[1] See Chapter IX.

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The first decree issued by virtue of the authority given in August 1947 required enterprises to conduct their business in accordance with specific plans approved by the National Planning Department. These plans were to be set up by the leading executives for the purpose of being submitted to the Planning Department and to the competent Ministry. The obligation to prepare and submit specific plans in pursuance of the National Economic Plan was generally imposed on industrial enterprises above the level of small-scale industries—employing at least twenty workers—on all enterprises incorporated as public or private limited companies, and without exception, on publicly-owned concerns. The classes of enterprise above mentioned were bound to keep in line with their individual production quotas and capital programmes. Consequently they had to ask for a permit from the National Planning Department before carrying out the slightest capital outlay not included in their plan as approved beforehand. For others (agriculture, commerce, small-scale industry, etc.) capital outlay up to 200,000 forint—equalling about £4,000—was allowed to be carried out without special authorization. Thus a partial investment control was established even in branches of production not directly subject to the Plan. Any responsible person infringing those enactments committed, according to the decree, an offence liable to a penalty of up to one year's imprisonment.

It was found before long that the decree published in August did not cover the whole range of activities to be controlled by the planners. It had no special bearing on agriculture. In November a new edict under the Act, superseding the extremely vague definition of offences, was issued. The definition of offences against the Plan became, according to this second decree, much more specific. They were defined thus:

(1) Any divergence from the directives given by the authorities regarding the quantity or quality of production or the combination of factors; (2) the conversion or destruction of goods (including producer goods) in violation of the standards of prudent management; (3) concealment of any stores and stocks so as to withhold them from the use required by the Plan; (4) the alienation or acquisition of goods against the rules in force; (5) the use of capital, whether owned or borrowed, for purposes not covered by the specific plan approved for the enterprise concerned; (6) the absence of a system of book-keeping enabling authorities to determine whether the enterprise is conducted according to the Plan.

In contrast with the former decree, offences against the Plan were now in principle qualified as a more serious class of crime,

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comparable to felony under English law. Even in a case of mere negligence an offender became liable to imprisonment up to three years. In all other cases the penalty may be penal servitude up to five years and, in aggravated cases, up to ten years. Even a death penalty may be inflicted when damage is done to important plant so serious as to interrupt production.

The decree clearly aims at investing the National Planning Department with an almost absolute discretion to prosecute for economic sabotage. Thus methods of terror were introduced to enforce the Plan. It is open to doubt whether in the long run these methods were conducive to economic efficiency, in particular, in regard to the quality of work done.

THE PRELIMINARY PROGRAMME

In reviewing the initial difficulties of the working of the Three-year Plan, it should be pointed out that they did not constitute arguments against planning in general, since they were rooted in specific Hungarian conditions. At the outset one of the main obstacles to elaborate planning was the gap in statistics on production. Later on it necessitated modifying the Plan. This insufficient information on fundamental facts, and perhaps still more the deficiencies in organization, were connected with the hasty way in which the transition to a system of planned economy was staged. The National Planning Department opened its activities on 1 August, the very same day that the Plan was officially put in force. Before that date preparatory work had devolved on different departments lacking effective co-ordination.

None the less, as required by law, the National Planning Department published a Three-year Plan on 1 August 1947 in the *Official Gazette*. It included a yearly production programme for industry and agriculture, as well as a national capital programme comprising investment in agriculture, mining, industry, communications, and buildings. The Plan proclaimed that, supported by the creation of an enlarged technical equipment and by a 50 per cent increase in the productivity of labour, industrial output in the third Plan year should amount roughly to double that of 1946–7, while farm production was to be raised by about 60 per cent.

The programme of output was mostly based on a broad classification of commodities; only sixty-nine types of commodities were enumerated. When the time came to give directions to individual enterprises, the National Planning Department felt the need of further details and expanded its list to include

1 [issued under the Act of 1947 for a three-year plan--Analyst]

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250 types of commodities.[1] The lack of detailed planning is borne out by the statement of the official *Statistical Review*, according to which 62 per cent of the production of manufacturing industries was at the outset estimated in quantities, the rest in approximate values only. The percentage of estimates in quantities was as low as 32 per cent for chemicals and 40 per cent for engineering products. At its inception therefore the Plan represented, particularly in the case of consumer-goods industries, not much more than a project for extending production.

The prospects of selling the increased output were not a matter of concern for the planners. The start was made in an economy of shortage. The supply of consumer goods was at the outset far below pre-war level, and output was still limited by the availability of raw materials. Thus adequacy of demand was an issue which did not arise. In view of the prevailing conditions, it is hardly an overstatement to say that any useful article produced could be sold at a remunerative price. So there was plenty of scope for the extension of consumer-goods industries without risking difficulties of selling. No doubt a limit would eventually be reached beyond which extensions of capacity of the consumer-goods industries would raise the issue of marketing. However, the structure of the Plan itself allowed the planners a breathing space. It was not likely that general difficulties of selling consumer goods or a congestion in the products of any important manufacturing branch as a whole would arise, so long as the Plan was requiring a high rate of capital accumulation, and the extensions of capacity were mainly in the capital-goods industries. Whenever some difficulties in selling within a limited section of the market for consumer goods arose, the maladjustment could, in view of a sellers' market, be dealt with without great difficulty, usually by shifting production from one article to another within the same branch of industry. It was the responsibility of the Planning Department, in co-operation with the financial authorities, to deal with disturbances of that kind.

The conception of the planners was to raise real income step by step in accordance with the increase of supplies of food and of manufactured consumer goods. They hoped that price and wage control (existing before the Plan came into operation) could be made instrumental in attaining that end. The extent to which the handling of these controls proved successful is a separate question.[2]

The programme contemplated an increase in production more than proportional to the anticipated increase in man-

[1] The directive issued late in 1949 concerning the execution of the Five-year Plan comprised 1,500 types.

[2] On shortcomings see below pp. 50–1.

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power: production was to be doubled, whereas man-power was to increase by only 30 per cent. That presupposed an improvement of fully 50 per cent in productivity per head.

The Plan at its inception did not prescribe any specific measures for improving productivity, but it was assumed that a steadier flow of raw materials, the improvement of equipment, together with further progress in the extension of piece-work, would have the desired effect. When the Plan was half-way through, a drive for further productivity was resorted to, but with indifferent success (see pp. 87–96).

PLANNING INDUSTRIAL PRODUCTION

During the first months of the Plan period the central organ for planning was preoccupied with planning its own organization. According to a decree issued early in September 1947 a representative of the Planning Department was to be installed in each plant (above a certain size), and in each institution or office of importance. The setting up of a network of representatives dragged on for months, and meanwhile a lack of co-ordination in the activities of the different agencies prevailed. However, by the end of the first Plan year the number of Plan controllers attained some 3,000. Their duty was to supervise industrial and agricultural production.

The methods of putting the Plan into force in the nationalized concerns were different from those applied to the privately-owned enterprises. Heavy industry presents an example of the procedure in the former.

As from the end of 1946, iron and steel production, and also about 70 per cent of the heavy machine industry including electrical engineering, were brought under a central management. The new formation under direct Government control united three former private concerns and the previously State-owned Iron and Engineering Works. As soon as the introduction of planned economy had been decided, the management were told to prepare a plan covering their field of activity. It was understood from the outset that this draft plan should secure full utilization of the capital equipment, and in certain sections of production an extension of capacity. Directions as to which parts should receive this extension were at first uncertain. At a later stage of the preparatory work, it was determined that the provision of additional capacity for the production of Diesel motors, and for the equipment of power stations and long-distance power lines,[1] should take first place.

[1] The expansion of capacity for electrical engineering was in accordance with the intention to develop a new network of power stations.

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For the plan to be submitted to the authorities the order books were used as a basis. At that time existing orders represented about eight months' output. These orders, in so far as they were from the Government, had already been placed with a view to the needs of reconstruction and the purposes of the plan. It was assumed that for the remaining four months' period sufficient further orders would flow in to keep the industry fully employed. In this way a production programme for a whole year was drawn up, naturally taking account of requirements for plant expansion within the concern. For the following two years no detailed plans were demanded, only suggestions on broad outlines.

The changes made in the draft plan, before it was incorporated into the general plan, were inconsiderable except for one point. The amount of investment proposed in heavy industry was curtailed, without changing estimates of production, on the assumption that existing plants could be more intensely exploited than the management had calculated on.

In the planning of the output of capital goods there were remarkable gaps. The programme for the equipment of the publicly-owned industries, which was drawn up in detail, was important, comprising as it did mining, iron and steel works, the greatest part of heavy industry, railways, and other communications. But the requirements of private enterprise, except those already on the order books, were not elaborated. The figures set out for investment in the different branches of light industry were not substantiated by specification of the types of equipment needed by individual enterprises, so that, at least up to mid-1948, a certain part of heavy-industry production was not really planned. The section of its capacity engaged in production of equipment for light industries worked on the basis of orders received, which usually resulted from special urgency or from pressure exerted by authorities particularly interested in the development of the plant concerned.

Under the circumstances prevailing no system of economy, whether centrally planned or not, could avoid at least so much planning as was required to set up a scale of priorities according to the urgency of needs for reconstruction and for other purposes.

In the case of heavy industry the main task of the planners evidently consisted in co-ordinating work on orders from the Government. There was quite a number of first priorities: reparations, reconstruction of railways and bridges, re-equipping of mining and heavy industry run by the Government. The point at which economic planning came in was in deciding

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whether and to what extent an extension of heavy industry beyond that required for covering the urgent needs of reconstruction and re-equipment should be initiated.

As shown by numerous complaints, planning failed to synchronize the manufacturing of producers' goods with investment. To secure deliveries in due time and of the quality required, the Ministry of Industry prescribed a formula for contracts, stipulating penalties for delays or other failures in deliveries. The significance of this measure faded as soon as any delay could be qualified as sabotage of the Plan under the decree issued in November 1947.

Of the application of the Plan to private enterprise, the methods employed in the rubber industry may be taken as more or less typical. Preparatory work was done by the competent section of the Ministry of Industry in collaboration with a few selected executives and the workers' representatives of the enterprises concerned. Estimates of production were mostly drawn up for classes of commodities, not for specified articles. The representatives of private enterprise were unwilling to give estimates in detail or to commit themselves accordingly, for they hoped to retain freedom to change from one product to another whenever difficulties of production or of sale called for a switch-over. They also endeavoured to keep estimates of output as low as possible so as to forestall troubles which might arise if they failed to reach the quota. By this method of budgeting the road was cleared for surpassing the production programme set up by the Plan.

Thus the production schedule for light industry did not present a cut and dried programme by which the executives of the enterprises could be guided and which they were bound to observe. This vagueness, which was to a certain extent deliberate, secured a considerable degree of flexibility, a quality not altogether disadvantageous for a general economic plan.

Within the group of consumer-goods industries, textiles held a special position in the application of the Plan. The different sections of this industry had for many years been united in an association with a carefully developed statistical service on technical equipment, labour, raw-material requirements, and production. During the war raw-material allocations were administered through this association, which possessed a ready scheme for distribution according to capacities. The industry had, in fact, been under a system of sectional planning. The authorities naturally made use of this instrument. With its aid a plan for the textile industries was drawn up centrally. This plan, more elaborate than in other branches of light industry,

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presented in its subdivisions a production programme for each of the factories.

For industries generally, light and heavy, the authorities expected the quotas of production to provide for an output exceeding that of 1946–7, and producers being aware of this would take care not to make their estimates unduly low. Yet no definite directions were given in advance to what extent production should be raised. The issue was thrashed out in discussions between representatives of the different industries and the Government experts. In the course of these discussions stocks as well as prospective supplies of raw materials and other factors bearing on production were investigated. Suggestions made by industrial experts formed the basis of deliberations, and were examined and possibly revised by Government experts and labour delegates. It was in co-operation with the industrial experts, labour representatives, and authorities at this preparatory stage that the plans of the concerns and simultaneously the plans for whole branches of industry emerged. Experts of the different concerns within the same branch of industry were in contact before submitting their propositions. As the ensuing discussions with the authorities were mostly conducted in the presence of representatives of the entire branch, the distribution of work among the different concerns was also decided.

In the course of the preparatory work production quotas involving additional capital equipment were scrutinized with special care in an endeavour to fit in requirements with the production of capital goods. Attention was also given to the repercussions of changes of production in dependent industries and to the co-ordination of raw-material supplies and production plans. But the fact that the time allowed for the preparation of the Plan was short left its mark in several respects. For lack of time the estimates of raw-material supplies, in particular of those to be imported, were in many cases arbitrary, and the plans for co-ordination of the activities of the different industries were sketchy and incomplete.

The Plan as we have seen was drawn up on the assumption of a considerable increase in the efficiency of labour. It was, in fact, a feature of the Plan that output should expand on a much larger scale than the number of hands employed in industry. This cost-diminishing factor had to be considered when setting up the specific plans of individual concerns if they were to fit into the general Plan. On the other hand, while an improvement of the standard of living by levelling up wages was envisaged, wage increases were to be admitted only when output per head increased. The reduction of cost was, in principle at

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least, anticipated within the individual production and investment plans. No details were disclosed to show to what extent these tentative estimates approached reality within the various industrial branches.

The Plan published on the authority of the National Planning Department—as provided in the fundamental law on the Three-year Plan—was on its industrial side the outcome of this preparatory work. So far as the big public enterprises in mining and heavy industry were concerned, their executives were, in fact, confronted with their own sectional plans. They received a programme of production with a classification familiar to them. As for the expansion of their output, the public concerns could rely on special consideration for their raw-material needs. These materials were provided increasingly by Russia and Poland even prior to the Plan.

Light industries retained some discretion in their production in virtue of the vagueness of the schemes presented to them. It was understood, however, that the production of necessities should have priority. And special directives were given to use a definite quota of the available material for the production of articles of a certain description in the textile and the leather industries. These directives eventually crystallized in rulings on the output of utility clothes and footwear.

There was a general tendency to turn out standardized articles, and if possible of maximum tonnage or other quantitative units. In this respect there was no difference between the position of the executive of a public enterprise and the private entrepreneur. Both were under pressure to realize and if possible to surpass their quotas.

THE MECHANISM FOR ADJUSTMENT

By the decree of August 1947 the obligation was imposed on all enterprises employing more than twenty workers to submit through the competent Ministry specific plans to the National Planning Department. For the fulfilment of it, the ground had been prepared through the consultations between industry and the authorities which have been described above. The plans had to include the following: (1) the plant capacity; (2) the amount of production in 1946–7; (2) planned production specified according to the types of commodities as listed in the directives of the Planning Department; (4) planned investment. The quantity of raw materials, man-power, and equipment needed for the production and investment proposed had to be indicated.

But that was not the whole story. As from the second half

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471 of the first Plan year the scheme for the specific plans became much more elaborate. In fact, a set of plans had to be drawn up half-yearly (broken down by months) and fitted into schemes prepared by the authorities, based on comparisons of current production with that of 1938. Altogether eight specific statements were required: (1) a general description of the activities of the concern; (2) production; (3) raw-material requirements; (4) cost reduction; (5) man-power; (6) replacement; (7) investment, and (8) finance. Estimates of production were to be given in quantities and values, according to the list of articles published by the National Planning Department. Products outside this official specification had also to be listed, in so far as their output came up to 15 per cent of the total production of the enterprise. Statements were wanted about the quantity of products to be used within the concern, and about that destined for marketing. The percentage of technical capacity to be utilized by the production proposed had to be stated.

The raw-material programme had also to include requirements of fuel and power. Separate statements on domestic and imported materials were asked for. Calculations were to be submitted of raw-material, fuel, and power requirements per unit of each of the products (or types of products) with reference to the pre-war norm.

The plan for the reduction of costs was supposed to present suggestions for economy in materials and in overhead costs, and for the improvement of labour efficiency.

Detailed statements on man-power needs were to be drawn up with time-tables, showing the requirements in skilled and unskilled labour.

Time-tables were further demanded in respect of the needs for raw materials and man-power, and of financial requirements in connexion with replacement and investment. Investments were to be proposed as required, for carrying out an increase of production in accordance with the Plan. Investments outside this requirement were to be suggested only if calculated to realize a saving of cost substantial enough to replace the capital expenditure within a short period. The financial plan had to present estimates of receipts and expenditure, of profits and losses, and of requirements for investment and working capital.

It is hardly necessary to say that no real plan could be drawn up in the details prescribed, and that it was impossible to check them effectively. None the less it was assumed that these individual plans would enable the Planning Department to check estimates made when preparing the Plan, and to carry through adjustments if deemed necessary. The individual plans had a

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very practical significance, in that once approved they became obligatory. Any departure from them, whether in production or in capital outlay, exposed the executives to the danger of being accused of sabotage.

No modified version of the Plan, compiled from the individual quotas submitted, was published. Two series of figures were disclosed: the preliminary forecast, and the achievements in the first Plan year. In the following table actual production is not compared with totals built up from the quotas of the individual enterprises, but with the preliminary programme promulgated on 1 August 1947.

	Preliminary Forecast	*Actual 1947–8*	*Percentage fulfilment*
Iron ore, 1,000 tons	210	258	123
Bauxite, 1,000 tons	220	400	182
Electrical engineering, value million forint	335	562	168
Bricks, million pieces	250	205	82
Leather, million forint	232	364	156
Footwear	—	—	123
Knitted wear, 1,000 kg.	3,480	1,750	50
Flour	—	—	62
Rubber goods, value million forint	80	230	288

As illustrated by the wide range of variation in the rates of fulfilment, the Plan was fluid. The forecast published in August 1947 was but a starting point. Numerous factors inducing considerable alterations were at work. When the Plan was put into operation and production in accordance with the quotas was entered upon, substantial departures from the forecast took place, and in many cases the quotas were exceeded. The increase in the output of iron ore was due to a quicker rise in labour productivity than had been expected. Ample ore supplies were reflected in the output of rolled material, entailing a revision of the programme for heavy machine industry. In the case of bauxite the possibilities of sale were, as stated officially, under-estimated. Even the steep increase in output remained within the available capacity. The level of production in electrical engineering was revised in order to raise exports. The markedly higher achievement was obtained by the introduction of a second shift, in some instances even of a third. In contrast to these extensions, brick production was less than planned. The building-material industry was to a considerable extent disorganized. Prior to the Plan its coal supplies were deficient. Deliveries of fuel became more regular under the Plan, but productivity of labour continued to be extremely low.

Developments in consumer-goods industries were highly uneven. The huge excess in rubber-goods output over the quantity planned can be explained mainly by the under-estimation of

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raw-material imports. Moreover, the production of the rubber industry received a stimulus from orders for tyres of standard type to be delivered to the Soviet military authorities. Supplies of home-made leather were larger than had been provided for, while imports were deficient. This shift involved on balance a heavy inroad on the raw-material stocks. Production of knitted wear was curtailed as an unusually mild winter caused a setback in demand. Low fulfilment in flour milling was the consequence of scanty raw-material supplies caused by poor crops.

Cases like that of the knitted-goods industry naturally could be dealt with only in closest co-operation with the authorities. The approval of the Planning Department was needed for changing the production programme. A corresponding redistribution of raw materials followed. Price policy had to be revised in order to hasten the disposal of accumulated stocks. This implied a change of the financial plans of the enterprises concerned, requiring additional credits.[1]

Since individual enterprises were, in their production and investment, tied down to their plans as approved, any change needed previous official consent. Executives were anxious to obtain this consent whenever conditions called for an alteration of their plan. Applications for alterations were dealt with by the National Planning Department in co-operation with the competent Ministry. The fact that the Plan was published by the National Planning Department implied that the latter had the power to carry out modifications according to practical requirements. It was, in fact, a duty of the Planning Department, being the authority responsible for the working of the Plan, to provide for necessary revisions. If these involved additional capital outlay, the consent of the Supreme Economic Council had to be applied for.

Whenever proposals submitted for the alteration of individual plans aimed at widening the scope, they were, as far as possible, favoured. Suggestions for reduction were severely scrutinized, and had to be supported by cogent reasons. In outstanding cases, such as the speeding up of the development of power generating, the initiative lay with the National Planning Department.

The efforts of the Planning Department to co-ordinate economic activities were supported by the Inter-departmental Committee for Credit Allocation. This agency, whose competence covered the whole field of economy in so far as the supply of working capital was concerned, had already evolved certain methods of work and routine during the year preceding the

[1] This being a typical case referred to in a more general context on p. 28.

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Plan. But its activities gained a firmer footing through the Plan. It was naturally understood that credits would be allocated only within the framework of the Plan. This general rule, however, was not adequate for practical action. Selection was needed even among Plan objectives, for a switch-over of credits from one branch to another according to actual developments often proved necessary. This support was particularly important when at the initial stages the different strata in the Hungarian economy were but loosely connected, the carrying out of the Plan being in many respects sectional rather than comprehensive. The Committee, in executing the credit plan, provided for adjustments which might be necessitated by some unforeseen urgent requirements. Irregular supplies of raw materials might call for shifts in production, or other occurrences might impede an expansion of production on the scale planned. In cases (not very common) where orders received fell short of the quotas, production could be reduced by permission of the planning authorities.

The enterprises had to apply for fuel and raw-material allocations, just as before the Plan, under the system of controlled economy. Exchange regulations as well as price control remained essentially unchanged. The organization of trade was not yet altered; industrial concerns were in a position to sell their products to any firms they chose. The concerns supplying private dealers mostly pertained to the light industry, while heavy industry was engaged in Government orders. The vagueness of the individual plans of light-industry enterprises enabled them to adapt their production to subsequent shifts in demand.[1]

At the same time the executives had to comply with a special control exercised by the National Planning Department. Its representative was present in every public or private concern of importance.[2] The position of these functionaries differed widely. In some cases (especially in State-owned enterprises with executives personally responsible to the authorities) they were mere observers or liaison officers. In other instances they became the real commanders of the enterprise. But, apart from the degree of this personal influence, the managements had to be aware that applications for allocation of raw materials, for credit, or for foreign exchange would be considered only if designed for purposes conforming to the specific plan approved for the enterprise. Besides these practical considerations, there was another strong argument for sticking closely to the approved plan—any departure from it involved a danger of an indictment for economic sabotage.

[1] As pointed out on p. 31.

[2] See also p. 29.

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AGRICULTURE

241 491 433 [435] In agriculture a system of planning was built up which was reminiscent up to a point of the form of agricultural planning in Great Britain or of the control and guidance of agriculture introduced in other countries of Western Europe. The common characteristic of these systems was production by private enterprise under central control, one of the main objectives of the direction being to ensure the delivery of certain quantities of food to the public authorities. Hungary, like the Western countries, relies within the pattern of control on price policy and on the granting of other advantages on certain products to induce the kinds of production desired. In the methods applied, however, the similarity was soon to cease. In contrast with the Western countries, the prices fixed in Hungary for deliveries were insufficient, as evidenced by black-market prices far exceeding the official ones. The inducement to evade the requirements of delivery was, therefore, strong. It was of vital importance for the Government to secure at least the moderate rations of food prescribed for the urban population. As from 1946 a machinery for collecting had been carefully developed, and later on flying squads were organized to apply harsh methods in repressing the peasants' attempts to slip through the meshes of the regulations requiring the delivery of grains, fat, and other produce. As a considerable part of the normal farm output had to be handed over for public supplies, an efficient working of the system would mean that the farmer was compelled to produce adequately if he was to have enough left for his private consumption.

It was not solely through the tightening of the collection system that the introduction of planning changed the position of the individual farmer. In order to secure the growing of certain products, direct compulsion was applied by decrees ordering in detail which part of the holdings should be devoted to the cultivation desirable. This compulsion was the very essence of the agricultural plan, which embraced the whole of the arable area. A plan was drawn up for production in stock-raising, too, listing the quantities of meat, milk, poultry, eggs, wool, etc. to be produced. These latter figures remained mere targets, but for crop growing the plan was, in one respect at least, realized. There were two sets of targets; the area to be sown with each product and the average yield. The latter represented guesswork more than anything else, though the estimates of yields lower than those of 1938–9 showed the intention of the planners to allow for underlying changes.[1]

[1] Average yields in 1938: wheat 9·6, rye 7·3, barley 9·2, oats 8·0, maize 13·1, potatoes 42·3, and sugar-beet 126·6 quintals per yoke.

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The plan was drawn up on the following lines:

	Estimates 1947–8			*Results 1947–8*		
	Area sown 1,000 yoke	*Average yield quintal/ yoke*	*Crops in 1,000 quint.*	*Area sown 1,000 yoke*	*Average yield quintal/ yoke*	*Crops* in 1,000 quint.*
Wheat	2,450	7·3	17,885	2,324	6·8	15,800
Rye	950	5·8	5,510	1,005	7·2	7,240
Barley	850	6·9	5,796	784	9·0	7,060
Oats	340	6·4	2,176	409	8·5	3,480
Maize	2,100	10·6	22,366	2,263	13·1	29,600
Potatoes	525	38·0	19,950	490	47·5	23,300
Sugar-beet	125	85·0	10,625	185	86·0	15,900

* Provisional data, no corrected figures were later given.

In determining the area to be sown with each product, the natural conditions of agriculture in Hungary had to be taken into account. Even within these limits modification of the pre-war sowing scheme was possible, and was, in fact, carried through in response to urgent needs (in particular by extending the area for oil seeds). The sowing plan for 1947–8 had to be revised, because in the autumn of 1947 the preparation of the soil was hampered by abnormal weather conditions. The gaps left by reduced autumnal sowing of bread-grains were mostly filled by planting maize in the following spring, as summer wheat and rye do not thrive in Hungary. But, apart from occurrences of this kind, the sowing plan was carried out. The mechanism of control proved fairly efficient.

The breakdown of agricultural output according to counties (numbering twenty-five) was drawn up by the Ministry of Agriculture. This plan, with its subdivisions, was based on previous experience. The starting point for determining the area for each crop was the average pre-war figure. This was cautiously modified with a view to changes in agricultural policy (change-over from grain-growing to more diversified production) and to immediate needs.

It was the task of the county committees, assisted by local government agricultural departments and representatives of the Planning Department, to elaborate, within the limits set for each county, sowing plans according to districts and localities. The responsibility for determining the part of the individual farmer rested with the local or village committees. These were destined at the same time to supervise the activities of the farmers in their successive stages. The omnipresent Communist Party, together with the organization of the 'National Union of Working Peasants', was called in to assist the village committees in fulfilling their task of control. These local committees supported the representatives of the Planning Department, who

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resided in every administrative district—about 200 by the end of the first Plan year.

The change in the position of the farmers can be fully appreciated only when the political atmosphere in the rural districts is realized. The edict of November 1947, in protection of the Three-year Plan against criminal offences, could naturally be applied equally to agriculture. In case of delay in some part of his work, or of any infringement of delivery orders, the farmer might be threatened with prosecution for economic sabotage. This possibility often became a reality as soon as the campaign which aimed at splitting the peasant population had been started. The November edict then proved to be a very effective weapon in fighting the *kulaks*, i.e. the wealthy peasants with a property exceeding 25 yokes. Holdings over that size were supposed to need hired labour, qualifying the owner as a class enemy. The farmers with a smaller property than 25 yokes were acknowledged as allies of the working class, not exploiting labour but themselves running their farms assisted only by members of their families.

THE UN-PLANNED SECTION

Small-scale Industries

The control exercised by the Planning Department did not extend to unincorporated concerns employing fewer than twenty workers. The share of the small units below this limit in the total output of manufactured goods was near 25 per cent. These units were not obliged to submit production plans. Investments carried out by them required approval only when exceeding the amount of 200,000 forint (£4,000). Consequently an appreciable part of industrial production and some part of total investment (in small-scale industry, agriculture, and trade) remained 'un-planned'.

Of raw-material supplies it was decided that certain quotas should be allotted to small-scale industry. These quotas were as a rule not adequate, allowing only a limited scope for the activities of handicrafts. Small manufacturers and handicraftsmen practically carried on their business under a controlled but not a planned economy. Yet controls were not efficient enough to regulate the activities closely. This applied in the first place to the prices they charged. The profits they earned, therefore, were often far above the officially approved rates. Consequently they were able to pay wages and raw-material prices in excess of the prescribed limits. Such evasions of the price control on raw materials were not extensive. The black market, though

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important for food, was not of appreciable significance as far as raw materials were concerned. Nevertheless the leakages did involve some disturbance within the planned portion of economy, especially in the sphere of labour, where the attraction exerted by the higher wages paid by the small employers restricted the supply of skilled labour for factories.

Labour Market

Individual enterprises were obliged to draw up specific manpower plans, but no central planning was established for the labour market. The planners were satisfied that growing production would automatically absorb parts of the labour reserve. They did not plan for full employment, realizing that the Three-year Plan would at the most provide employment only for a part of the labour reserve in the rural districts. Owing to the certainty that reserves were far in excess of Plan requirements, the recruiting of labour, except where skilled labour was concerned, was left in the hands of the employers, using the services of the labour exchanges for that purpose without any authoritative interference. The wages at which applicants were to be engaged had been fixed, of course, by approved collective agreements.

The increase in numbers employed was markedly slow during the first Plan year, as 'in-door' unemployment, widely spread in 1946–7, had first to be absorbed. Owing to the surplus of unskilled labour there was no need from the economic point of view for comprehensive labour organization, but steps soon had to be taken to overcome the shortage of skilled labour.

THE TARGETS—PLANNING FOR EXPANSION

As officially proclaimed the fundamental conception of the Plan was to raise production on a scale sufficient for a gradual improvement in the standard of living, and for a capital accumulation at an unprecedented rate. The initial impetus for an accelerated rhythm of economic activity given by the Plan was supported by an extension of credit, which was not necessarily inflationary in an economy with unutilized resources. The subsequent expansion of production was to be effected by a steadily enlarged capital equipment and by improved labour productivity. Industrial production was estimated at about 60 per cent of the pre-war level in 1946–7. The Plan envisaged the re-establishment of the pre-war standard of living by the end of the three-year period. In view of a steeply rising rate of net investment—from 10 to 18 per cent, against some 5 per cent in the

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inter-war period—and of reparation payments, the goal could be realized only if a level of production was attained surpassing the pre-war level; production in the third Plan year was to be almost double that of 1946–7. This bold programme for expansion was staged, notwithstanding that the absence of raw-material reserves made any adjustment in production difficult.

The Plan embodied an economic policy according to which by 1949–50 farm production would still be 5 per cent below the pre-war level, while output in mining and metallurgy would exceed that of 1938 by 34 per cent, and in manufacturing industry by 27 per cent. An increase of 64 per cent was provided for production in engineering.

PLAN ESTIMATES
(at prices of January 1947)

	1938	*1946–7*	*1947–8*	*1948–9*	*1949–50*
			In million forint		
National income	22,517	14,741	19,029	22,414	25,705
Public expenditure on goods	2,830	1,648	1,750	1,850	2,000
International commitments	—	1,397	1,199	1,470	1,684
Investment*	1,205	530	1,796	2,185	2,604
Increment of livestock	168	182	297	359	462
Value of goods available for home consumption	18,314	10,988	13,987	16,550	18,945
			Per cent of 1938		
National income	100	65·5	84·5	99·5	114·2
Value of goods available for home consumption	100	60	76·4	90·4	104·3

* 1947–8 to 1949–50 Plan investment.

Within the estimates 6,585 million were provided to finance the three years' investment programme. It was anticipated to break up total investment as follows:

	Million forint	*Percentage of total investment*
Agriculture	2,000	30·5
Mining and manufactures	1,745	26·5
Communication	1,676	25·4
Buildings, social services	1,164	17·6
Total:	6,585	100·0

At first sight it is surprising that investments planned in agriculture exceeded those for mining and industry, though the Plan was generally regarded as a programme for industrialization. But, as the farmers were the largest group in the community, the planners intended that the amounts devoted to agriculture should appear impressive. Therefore investments for the extension of industries in support of farming (tractor and fertilizer production, rural electrification, as well as rural housing and

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road building—amounting altogether to 900 million forint) were scheduled as 'agricultural'.

The programme outlined was designed to speed up reconstruction in Hungary and to give a definite direction to the development of productive power. As to the possibility of selling the increasing volume of products, the effective demand needed was to be created by the Plan itself and partly also by developments not planned in advance. Purchasing power for absorbing consumer goods was bound to be expanded by growing employment and by the adjustment of real wages to the rising productivity of labour. Regarding capital goods, it was the very essence of the Plan to secure means for financing investment on the scale provided and even beyond it.

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CHAPTER V

THE INITIAL IMPULSE

INDUSTRIAL PRODUCTION

433 THE deficiencies of planning at the initial stages did not prevent conspicuous achievements in industry during the first Plan year, if viewed against the background of 1946–7. In the course of the year following the monetary reform, industrial output was restrained by shortcomings in raw-material supplies, the uneven flow of which also impaired labour productivity. Industrial potential was available far in excess of actual output. The losses due to war destruction were partly restored during the inflation period, so that at the time of the monetary reform capacities surpassed the pre-war level in terms of power equipment [454] (though lagging behind the peak attained in 1943). Investment during 1946–7 was not substantial. The Plan in this respect created a fundamental change. Opportunities of investment were offered, unprecedented in scale. In 1947–8 the sum placed at the disposal of industry for the extension of capital equipment was close to 800 million forint (£16 million). From the outset industrial investment exceeded the planned amount (554 million forint for 1947–8), though the difference was to a considerable extent a nominal one. Calculated at real value investment was 10 to 15 per cent in excess of estimate. It was claimed that replacement of obsolete equipment necessarily neglected during the war was not included in the figure quoted above. Four-fifths of the investment was devoted to capital-goods industries, with special regard to eliminating bottlenecks.

This extension of capacity could only yield results if supplies of raw materials became more reliable and plentiful than during the year preceding the Plan. It was the second remarkable achievement to provide for supplies sufficient to support an industrial activity so greatly increased. The utilization of domestic resources as well as increased imports had to contribute to attaining this result.

In preparation for the Plan during 1946–7 the most strenuous efforts had been made to raise coal, iron, and steel production. Though some progress was achieved, production of raw materials, except for crude oil, had been on the whole unsatisfactory in the year preceding the Plan. The conspicuous rise in

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the oil output is explained by the fact that prospecting began to bear abundant fruit subsequent to 1938. 433

The following table of domestic supplies of material illustrates the progress recorded in the first Plan year.

	1938	*1946–7* (1,000 tons)	*1947–8*
Coal	9,360	7,750	9,850
Crude oil	43	640	496
Bauxite	467	248	400
Iron ore	370	214	260
Steel	650	510	720
Cement	370	143	280

In view of the dependence of several Hungarian industries on imported raw materials, the disintegration of international trade was another serious cause of shortage. Total imports in 1946–7 were estimated at 16 per cent of the pre-war volume. Timber imports were but 9 per cent of the quantity received in 1938, non-ferrous metals 13 per cent, cotton 60 per cent, iron ore 72, but metallurgic coke was 113 per cent. Ample consignments of both the latter items came from Russia and Poland. They were intended to keep heavy industry going, and to enable it to fulfil reparation commitments. 433 439

Within the framework of the Three-year Plan foreign trade was also 'planned'. Targets, corresponding to the projected extension of production, were set for the imports of raw materials and equipment. Export targets were adjusted to import requirements estimated at 2,100 million forint at the prices of January 1947 (against commercial imports amounting to 944 million forint in 1946–7).

The Government made efforts to attain the target by extending the network of trade agreements. It failed, chiefly because in consequence of the poor crops there were no agricultural surpluses. Imports nominally reached 90 per cent of the target. But, for comparison in volume, an allowance of at least 20 per cent appears necessary, to allow for higher prices. And even this result could only be attained at the cost of depleting the foreign-exchange reserves.

Adverse developments in foreign trade did not seem to curb the general upward movement of industrial production. But the growth was not quite according to the Plan estimates. The output of capital goods went well ahead, but that of consumer goods mostly lagged behind, though their targets had been very cautiously set, compared with the pre-war period. Achievements were recorded by the National Planning Department as follows (calculated on the basis of 1947 January prices): 433

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	Index of output in 1947–8 (*100 in 1946–7*)	(*100 in Plan*)
Mining and metallurgy	120·9	105·4
Manufacturing industries:		
Iron, metal, engineering	160·9	123·3
Electrical-power production	128·0	121·0
Leather industry	193·0	156·0
Chemicals	117·0	109·0
Textiles	146·0	95·0
Clothing	227·0	94·0
Total Manufacture*	154·0	104·0

* Including items not quoted.

The extension of activities of light industry was left to the hazards of raw-material supplies. The special case of the leather industry, with an output pushed far beyond the target production programme, is explained by the existence of stocks of raw material which had not been fully taken into account by the planners. A heavy inroad was made on these stocks. None the less production remained, as in other important consumption-goods industries, considerably below pre-war level, while production in all capital-goods industries exceeded that mark. Yet the performance of industry as a whole, signifying a 54 per cent rise compared with the preceding year—calculated at 1947 January prices—was spectacular enough. In terms of quantities coal output rose by 27, steel production by 40 per cent. The expansion was realized without a corresponding increase in the labour force. In coal mining the result was mainly secured by regrouping, which raised the number of miners working at the coal-face. Thus average productivity, as measured by output per shift, was raised by 21 per cent. In manufactures the average number of those employed rose from 250,000 in 1946–7 to 291,000 in 1947–8. This moderate increase (16 per cent), if compared with the growth in output (54 per cent), indicates higher productivity of labour. The average rate of improvement in productivity amounted at this time, according to the computations of the National Planning Department, to 25 per cent. A 40 per cent rise was claimed later. The substantial difference between the earlier and the later version was not explained.[1]

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AGRICULTURE

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For agriculture the Plan presented a comprehensive development programme. The programme included investment to benefit crop-growing and stock-raising. Means were assigned

[1] See p. 93.

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for the elimination of strip-farming,[1] for irrigation and drainage, for mechanization, particularly through the establishment of tractor stations, for farmers' training as well as for the extension of agricultural industries, for the increased output of fertilizers, for supplying the countryside with electric current, for road building, and finally for social services in the villages. Besides the funds provided centrally to be used for agricultural equipment, there were investments of individual farmers, which escaped central control. This activity took shape more especially in the increase of livestock and in new farm buildings. The development scheme, absorbing roughly 700 million forint (£15 million) in the course of the first Plan year, was bound to raise quantity and quality of production in the long run.

The planning which set out to determine the kind of cultivation to which areas of land should severally be devoted encountered certain limiting factors. In spite of a substantial recovery, the effects of war destruction on equipment and livestock were not yet effaced. Moreover, the consequence of the land reform had to be considered.

In consequence of the breaking up of the big landed estates broadly one-third of the agricultural area, formerly cultivated in big units, was divided into lots too small on the average to yield full support for a peasant family. Subsistence farming stepped in where formerly production for the market prevailed. The measures of adaptation required by the sudden change of structure, in particular, the change-over to more intensive methods of cultivation which is usually regarded as a corollary of the land reform, had to be postponed. The new farmers had to wrestle with the day to day problems of the lack of draught-animals and other traction power, of fertilizers, and of implements, and, last but not least, with a sequence of droughts. The fact that, in spite of all these adverse conditions, the area sown in 1946–7 was only slightly less (2 per cent) than the average of the period 1934–8 shows the determination of the peasants to work hard on the land they owned.

Low averages in yields, though imputed to the weather, were to a certain extent caused by deficient methods of cultivation. Yet it would be wrong to put the whole blame for the setback in production on the land reform. Post-war conditions in general and the adverse weather conditions had a substantial share in causing the unsatisfactory results. Those who sometimes argue that the hasty division of land aggravated the situation, do not take into account the fact that, in a world of social upheaval,

[1] This worst obstacle of economic farming was widely spread. It was to be found in its most extreme form in the Central Hungarian Plain.

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241 the big land-owners would have encountered troubles which
433 would have impaired the productivity of their estates.

From the following table it may be observed that changes, compared with the period before the war, in the relative size of areas to be devoted to the different branches of cultivation are not very great. The main features are reductions in the sowing of bread grains and the extension in the production of oil seeds. Reduced cultivation of bread grains accords with a permanent trend, while the emphasis placed on oil seed was rather a momentary reaction on account of the shortage of animal fats.

	Area sown in 1,000 yokes			*Area sown in 1947–8 in percentages of Plan estimate*
	Average 1934–8	*1946–7*	*1947–8*	
Wheat	2,806	2,388	2,324	95
Rye	1,114	978	1,005	106
Barley	811	773	784	93
Maize	2,029	2,309	2,263	107
Potatoes	509	482	490	93
Sugar-beet	81	169	185	148
Oil seeds:				
Main crops	63	278	390	105
Subsidiary crops	270	447	547	
Fodder	1,170	1,045	1,030	96

The divergence from the agricultural plan, so far as sown areas were concerned, was of no great consequence. But the supply situation was determined by average yields which were disastrously low in 1945–6 and improved only slightly in 1946–7. Food supplies during 1947–8 were dependent on the poor crops of the previous year. Thus scarcity of food became a feature of the first Plan period, as it was a characteristic of the year of the monetary reform. Inadequacy of food supplies was reflected in the price movements during 1946–7 as well as in that of the first Plan year.

	Crops results in million quintals		
	Average 1934–8	*1945–6*	*1946–7*
Wheat	22·2	11·3	12·6
Rye	7·0	4·2	5·0
Barley	6·1	4·4	4·0
Maize	23·1	13·6	17·8
Potatoes	21·3	11·4	14·6
Sugar-beet	9·6	5·2	11·6

RISING PRICE LEVEL

435 In the course of the year 1947–8, with soaring prices of farm products and considerably increased prices for manufactured articles, fluctuations were violent. The authorities, endeavouring to conform their policy to facts, roughly doubled the official prices for bread grains. By the end of the period reports on

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favourable crop prospects opened hopes towards relieving shortages. Maize and potato prices collapsed, thus partly counterbalancing previous movements.

Ultimately, when striking a comparison between the beginning and the end of the first Plan year, a rise of 9 per cent of the general price level occurred, for which, this time, industry was more responsible than agriculture.

Rising wholesale prices were not fully reflected in the official cost of living because of subsidies paid. It should be borne in mind, however, that in view of the desperate food conditions the real cost of food exceeded the level shown in the official index. According to expert computations, taking into account black-market prices and the relative importance of supplies from this source, the real cost of food during 1946–7 was at a rate varying between 20 and 60 per cent above the official level.

With low—and sometimes irregular—food rations, the black market continued to be an indispensable source of supply for the consumer during 1947–8. At times black-market prices amounted to fivefold the official ones. This applied, in particular, to bread and flour, the prices of which, owing to subsidies, did not follow the increase in the price of grain. No authoritative statement is available as to the degree to which the cost of food was affected by these conditions in 1947–8. It might be assumed, however, that the importance of the black market decreased during the second half of the year. This was not brought about by more abundant supplies but rather by the fact that, as referred to above, a number of important commodities, such as maize, potatoes, eggs, fat, and pork, were released from price control. Thus the increase in the cost of food within the official index was accelerated, reaching its peak in February 1948, when it exceeded by 36 per cent the level at the start of the Plan year. It was only in June 1948, with the bigger crops in prospect, that the index perceptibly fell below the maximum.

	Wholesale prices		*Cost of living*		*Hourly Wages in Manufactures*
	Total Index	*Farm Products*	*Industrial Materials and Products*	*Total*	*Food*
	(January 1947 = 100)			(Aug. 1946 = 100	(Jan. 1947 = 100)
1947					
July	120·1	170·5	105·9	110·0	117·0	128·6
December	127·3	185·0	110·4	126·5	149·9	164·0
1948					
January	127·7	186·2	110·5	128·4	153·1	
February	131·4	186·2	116·4	132·6	159·9	
March	133·8	195·6	116·8	130·0	154·8	
April	135·0	200·9	117·1	130·6	156·3	
May	136·0	204·7	117·5	132·5	158·5	
June	131·9	186·0	117·8	127·2	142·1	
July	130·9	182·1	117·6	117·0	128·0	197·5

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DISPROPORTION BETWEEN INCOMES AND SUPPLIES OF CONSUMER GOODS

465 In view of prevailing shortages an attempt was made as early as in August 1946 for planning in a rudimentary form to adjust money incomes to the amount of consumer goods available. It was this concept that caused the authorities to suggest wages in industry averaging 50 to 55 per cent of the pre-war level; for clerical staff the relation to pre-war earnings was to be fixed according to the amount of the salary between 30 and 55 per cent, and for civil servants at an average of 33 per cent. Intentions to stabilize wages at the rates quoted were, however, frustrated by soaring food prices. A race between wages and prices started. In July 1947 average hourly wages in manufactures exceeded by almost 50 per cent the level of the previous October. Yet results for the wage-earners were poor in terms of real earnings. It could hardly be expected otherwise in view of a national production of about two-thirds of the pre-war volume. A few figures substantiate the extent to which, on the eve of economic planning, consumption (in quantities) lagged behind that of 1938.

	Consumption in 1946–7 1938 = 100
Total food (in terms of calories)	66
Milk	50
Sugar	94
Eggs	80
Cotton goods	63
Woollen goods	32
Domestic fuel:	
Coal	23
Wood	37

[185] The idea of equating consumers' aggregate income with supplies in consumer goods was incorporated in the Plan. The intention was to raise wages and salaries step by step with the increasing output and the resulting increase in the flow of consumer goods. The idea of the planners was to pass into planned economy with a wage level unchanged (i.e. at the level of July 1947) and to consider a revision of wages after the lapse of six months, according to the position then attained. But the Government's control over wages was not tight enough. The trade unions insisted upon a general wage increase of 10 per cent as from 1 August 1947 and the Government, taken by surprise, was unable to refuse confirmation. Thus the Plan started with inflated wage rates and in the absence of a change in the basic conditions the race between prices and wages continued. As stated by the National Planning Department, average earnings per hour in manufactures amounted to 2·71 forint in 1947–8

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against 1·70 forint in 1946–7. On the basis of yearly averages, there was a rise by 59 per cent, compared with a 14·6 per cent increase in the cost of living as reflected by the official index, making real earnings higher by 40 per cent than in the year preceding the Plan.[1] The computation disregards the existence of black-market prices as essential components of the cost of food. This cost-increasing factor existed in both the years compared, and its omission makes the comparison unreliable. Nevertheless, it can be surmised that real trends are reflected.[2]

The question might be raised to what extent supplies were available for improving the standard of living, even if only for the privileged class of wage-earners. Undoubtedly the output of consumer goods, as a part of the generally rising industrial production, was enlarged. The harvest was a little more favourable than in the previous year. Owing to this, and even more to improvements in the system of collecting the quotas, the food supply of the urban population was somewhat better than in the previous year. The upward trend in supplies was indicated by the estimate of the national income, according to which the amount of goods available for the consumer in the first Plan year exceeded the amount in 1946–7 by 30 per cent.

The official statement on the scale of increase in consumption needs some qualification. In the computation of the national income no allowance was made for the accumulation of stocks. According to expert estimates, stocks increased by about 850 million forint in 1946–7 and by 2,100 in 1947–8. If deductions on this account were made, the amount of goods available for domestic consumption would work out as follows (see Table XI, p. 141, on national income):

	1946–7	*1947–8*
	(million forint)	
Available for domestic consumption as officially stated	10,689	13,934
Less increase of stocks	850	2,100
	9,839	11,834

This more realistic approach reflects a definite upward trend in domestic consumption, too, but on a more moderate scale with a rate of increase of roughly 20 per cent.

[1] The fact that the rise in wages considerably outpaced the increase of the price level is explained by improvements in productivity per head. This implied that wage costs did not change in proportion with the rise of wage rates.

[2] The disregard of black-market prices in the official index of the cost of living invalidates comparisons with pre-war standards, and in particular the claim of the Hungarian planners that by the end of the first year of the Plan real wages had attained the pre-war level.

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BUDGET AND CREDIT

652 During the year of the monetary reform efforts were concentrated on achieving a balanced budget. It was a hard task in view of the heavy commitments for reparation and the burden loaded on the Treasury by the deficits of public enterprises. In spite of stern measures to cut current expenditure, requirements could be met only by the aid of extraordinary revenue, amounting to more than 20 per cent of the total. The Plan called for a reversal in the relation of tax revenue and expenditure. The financial conception was that the essential part of the means to be used for investment should be provided from surpluses of the Central and local government budgets. It was anticipated that the general rise of production induced by the Plan would [451] secure ample tax revenue. Moreover special taxes on property were introduced to support the financing of the Plan.[1]

The financial plan for 1947–8 provided for investment to the total amount of 1,796 million forint, to be met from the following sources (in million forint):

CENTRAL GOVERNMENT AND STATE ENTERPRISES

	million forint	
Surplus of ordinary revenue		489·5
State enterprises	122	
Capital levy	515	
Loan	200	
Total extraordinary receipts		837·0
		1,326·5
Local government		269·6
Joint Soviet-Hungarian companies		42·5
Co-operatives		38·0
Private investment		121·4
		1,796·0

The actual out-turn differed widely from the estimates. Investment at 2,494 million forint exceeded the amount anticipated by nearly 40 per cent. Of the extraordinary receipts, the capital levy yielded only 193 million, the State enterprises 50, and no loan was issued.

The gap to be covered was nearly 1,300 million. In view of those deficiencies and an additional requirement of almost 700 million, the Central Government's budget provided a surplus of 833 million, or 343 million above the estimate. Local govern-

[1] They included a capital levy to be paid in instalments in the course of three years. The lowest rate for property exceeding 75,000 forint (£1,500) was fixed at 6 per cent, the highest rate, burdening property of more than 2 million forint (£40,000), at 25 per cent. This tax was supplemented by a levy on the accretion of property (with 1939 as the basic year) applying rates from 25 to 75 per cent.

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ment produced 529·7 million or 260 million above; private investment contributed 275·7 million or 154 million above; trade agreements provided 73·5 million from abroad. After allowing for a small deficiency on the other two items, the amount available towards the 1,300 million was just 800 million. Substantially the deficiency was met by advances to the amount of 454 million from the National Bank.

Current tax revenue fulfilled expectations. There was a spectacular rise in conformity with expanding production, as shown in the figures of the budget accounts.

	1946–7	*1947–8*
	in million forint	
Receipts		
Current revenue	2,891	6,047
Borrowing or other extraordinary sources	812	350*
Expenditure		
Current, on goods and services†	2,265	3,758
International commitments	1,436	1,709
Investment under the Plan	—	833

* 193 million forint proceeds of the capital levy, the rest from the sale of stocks of commodities, participation in the profits of the National Bank, coinage.
† Including deficits on nationalized industries and subsidies.

Within the budget 833 million forint were provided for financing the Plan. Yet the figures given by the Planning Department show a considerably higher amount as contribution of the Central Government for the purposes of the Plan.

SOURCES OF PLAN FINANCE

	Planned	*Actual*
	in million forint	
Central Government	1,326·5	1,565·6
Local government	269·6	529·7
Joint Soviet-Hungarian companies	42·5	27·5
Co-operatives	36·0	22·0
Private investment	121·4	275·7
Advances from abroad (based on trade agreements)	—	73·5
Total:	1,796·0	2,494·0

The contribution of the Central Government includes, besides the item in the budget, the contributions of the nationalized enterprises[1] (covering also investments which had been reckoned as private enterprise, because they had made them prior to nationalization). It also includes the loans granted by the National Bank to the amount of 454 million forint.

In the year of the monetary reform, before the Plan, recourse became necessary to the National Bank, though only to a

[1] As distinct from 'State' enterprises. This latter term denoted enterprises, such as railways and postal services, which had been owned by the Government before the war and the accounts of which had been included in the budget.

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652 moderate amount to finance investment, and the Plan accentuated the existing inflationary pressure. Capital accumulation was inadequate to meet requirements within the limits of sound financial policy. In spite of all efforts to raise tax revenue, and the pressure exerted on nationalized enterprises to produce surpluses for the Treasury, about one-fifth of total requirements had to be provided for by loans inflationary in character.

This over-straining of financial resources was naturally reflected in the state of the National Bank. Its bill-portfolio (bills of private and public concerns) rose during the first nine months of the Plan—August 1947 to April 1948—from 920 million to 1,680 million forint (the movement in the following months of the first Plan year was obscured by the change-over in the banking system). By the end of the twelve-month period the note circulation had reached 2,224 million compared with 1,592 million forint in July 1947.

INVESTMENT AND PLAN CONTROL

454 With total investment exceeding the programme the distribution of investment over the various branches of economy differed widely from the scheme originally planned.

INVESTMENT 1947–8 (CURRENT VALUES IN MILLION FORINT)

	Capital Programme	*Actual*	*Percentage of increase*
Agriculture	579	688	18·7
Mining and manufacture	555	792	43·0
Communications	427	545	27·6
Buildings, social services	235	469	99·0
Total:	1,796	2,494	38·9

In considering these swollen figures it should be recalled that their increase was to a major part due to inflationary price developments. According to official sources this change in prices was responsible for an increase of about 28 per cent, leaving a margin of roughly 10 per cent for increases in volume. If this statement is correct, it follows that in terms of real value investment in agriculture was less than the estimate, while that in communications was in line with the Plan. Thus real increases were confined to investments in industry and building. Within industry it was in the first place power production and in the second engineering which exceeded limits set for them in the programme. This was in accordance with the fundamental ideas of the initiators of the Plan. On the other hand the sharp rise in building activity was a sign of deficient control. The big

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difference between actual investment and that provided for this group in the estimates was mainly for the reconstruction of public buildings and public utilities. The National Planning Department was not in a position to induce the authorities to keep their reconstruction works within the framework of the Plan. This, however, was only one part of the story. The other was the failure to take due account of construction already under way when the Plan was drawn up. As it is, the absence of a tighter control during the first Plan period manifested itself even in investment, which was the very centre of planning.

The original Plan was divided into three one-year periods, and the foregoing statistics relate to the first year. That is the period for which they were officially compiled. But in quoting the statistics no account has been taken of the fundamental change which occurred after the first eight months in March 1948 when nationalization was extended to all manufacturing concerns employing more than 100 work-people and to all wholesale trade. This change forms the subject of the next chapter.

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CHAPTER VI

THE CHANGE IN ECONOMIC AND FINANCIAL STRUCTURE

INDUSTRY AND AGRICULTURE

471 WITH the change of the political climate in Eastern Europe, the policy in regard to the scope of nationalization underwent a definite change. In March 1948, shortly after the coup d'état in Czechoslovakia and the ensuing nationalization measures in that country, public ownership of all industrial enterprises in Hungary with more than 100 employees was announced. No preliminary discussions on a measure of such consequence had taken place. It was plotted by the Communists and presented to the public in a way that deprived the other parties—already politically undermined—of the possibility of offering any opposition. The law enacted in May 1948 on the nationalization of industry did not protect even small-scale industry against further encroachment. It vested the competent Ministry with arbitrary power to include any plant irrespective of size. Though the principle was established that compensation should be paid to the former owners, it was never intended to carry this principle into practice.

Thus when the first Plan year drew to its end, broadly 80 (and later 90) per cent of manufacturing industry in terms of man-power was nationalized. In the wholesale trade the change-over was completed within a short period. By 1949 nationalization had also made substantial progress in the retail trade.

And there was the sinister chapter of land collectivization. 661 The campaign was opened after the rupture between the 565 Cominform and Yugoslavia. In fighting 'rural capitalism' assi- 423 duous efforts were made to split the peasants into two camps, the *kulaks* or exploiters on the one side, and the 'working peasants' on the other. Owners of farms larger than those workable by one family were denounced as capitalists. In the course of the campaign this line of discrimination faded. Eventually it depended on the arbitrary decision of the local party committees whether a farmer ranked as a *kulak* or as a working peasant. The intention evidently was to outlaw the *kulaks* and to coerce 241 or entice the working peasants into the *kolkhoz* (the Russian type 423 of collectivized farming). Co-operatives merging the small hold- 474 ings according to that system into an economic unit enjoyed

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special credit facilities and priorities in using tractor stations, and were favoured in many other ways. In spite of these benefits and a relentless propaganda coupled with elaborate methods of pressure, land collectivization remained in an embryonic stage. By the end of 1949 it was claimed that about 1,500 producers' co-operatives, cultivating 370,000 yokes of land, had been established. This would amount to 2·6 per cent of the total agricultural area. Even these moderate figures may be overstatements, as possibly not all the co-operatives concerned are of the most 'advanced' type, which merges the holdings of the individual members. Moreover, this kind of co-operative was mostly established on land recently acquired by the Government under the right of pre-emption, or through confiscating *kulak* holdings, and redistributed on condition that the new owners joined the advanced form of co-operative.

So far the changes in the organization of agriculture as brought about by the land reform were slight. Yet the rural districts had been stirred up and their atmosphere poisoned. Some detrimental influence on productive activity may eventually result, but no signs of it have been discernible up to now. The reports on the achievement in agriculture neither substantiate accusations of *kulak* sabotage nor do they indicate any relaxation of assiduity in cultivation because of anxiety about the ownership of land. The terror applied in collecting the grain and other produce, which the peasants were bound to deliver in order to ensure public supply, may partly explain their zeal in growing adequate quantities.

ADOPTION OF THE SOVIET PATTERN IN BANKING

In April 1948, with any serious political opposition already excluded, it was proposed to recast the Hungarian credit organization. By that time the nationalization of the leading banks had been completed. As already stated that measure, extending as it did to the subsidiaries of the institutes concerned, subjected over 80 per cent of the credit apparatus to public control. Nationalization, as it was decided upon in 1947, was intended to avoid the disruption of existing units, and to enable them to restore former international relations. A reorganization of banking undeniably appeared necessary. It was already overdue during the inter-war period, when the solution of the problem was adjourned because of the rivalries of competing groups and the lack of determination of the financial authorities. There is little doubt that a reasonable organization could have been reconciled with the preservation of ties with Western

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652 453 financial markets. Yet the break-up that ensued was calculated to sever existing links. The new State banking system was introduced gradually as from May 1948, and the old structure disappeared.

The entire current banking business was transferred to the National Bank which took over the assets and the liabilities of the other banks. Thus the Central Bank, endowed with the right of note issue, was turned into the exclusive source of credit. It provided enterprises directly with working capital through the instrumentality of the 'single-account' system. For an enterprise placed under this system, the National Bank had the monopoly of banking services. All its financial transactions had to pass through its single account. In particular loans providing working capital were credited to it.[1] From the outset nationalized enterprises and other public concerns came under the system. Any private enterprise, applying for credit to the National Bank or to the Treasury, might be drawn in, thereby being practically placed under public control.

Thus the National Bank came to provide for the financial requirements of the publicly-owned concerns and, to a considerable extent, also of those privately owned. For the residue of credit operations certain other institutions are assigned.

(1) An Investment Bank was established to finance and control investment activities in mining, industry, transport, and in important branches of building. The Bank is practically the financial section of the Planning Department. The funds at its command are derived first of all from the central and local government budgets. The amounts earmarked in these budgets for investment are transmitted to the Bank. It has at its disposal another source to draw upon for the purpose of allocating long-term credits: the National Bank. Finally it is the Investment Bank that handles the depreciation fund of Hungarian industry. All enterprises—public and private—pay regular contributions to this fund in proportion to their sales.[2]

652 457 (2) The Bank of International Trade was endowed with the monopoly of banking transactions connected with foreign trade. One of the former big Budapest banks, which, like the other banks, had already handed over all the other parts of its business to the National Bank, was established in this special capacity. However, in one respect the monopoly of the Bank for International Trade appears to be restricted; in transactions with Soviet Russia it is required to co-operate with the Russian-owned Hungarian Bank of Commerce and Industry.

652 453 (3) The National Savings Institution first operated as a section of the National Bank. In a second phase the section was promoted to

[1] The purport of this system from the point of view of financial control will be discussed in Chapter IX.

[2] See comments on p. 86, below.

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be a separate institution, a change which did not substantially alter the former position. In it, the savings banks of the country, including the Postal Savings Bank, were merged. Besides collecting deposits through its network of branch offices, it acts as a bank for private enterprise. It grants short-term credits to small-scale industries and retail trade. But the credits granted fall short of the deposits collected, and the excess is transferred to the National Bank to support the credit operations of the latter. According to an expert statement the direct lending of the Savings Institution amounted to hardly 10 per cent of total deposits in July 1949.

(4) The Bank of Co-operative Societies, a long-established centre for co-operative credit, acts as the bank for agriculture. Though it receives deposits, this branch of its activity has so far shown poor results, and it depends, therefore, for capital resources on the National Bank.

Outside the Hungarian banking system the Russian-owned Bank already referred to enjoys a status of *de facto* extra-territoriality. It is the banker of the various Russian enterprises, headed by an agency for the management of Russian property. The Bank was originally Austrian-owned, and was taken over by the Russians in pursuance of their interpretation of the Potsdam Agreement. Other foreign banks were wound up, as no scope was left for their activities.

From any description of the banking system of Soviet Russia it is clearly seen that the Hungarian Communists faithfully fulfilled their task of copying the Russian organization. The State Bank, as the sole institution for short-term credit, and around it a few specialized agencies as distributors of the funds made available for planned investments, are the characteristics of the credit system adopted in the Soviet Union in 1930.[1] However, when building up the new system, there was a fundamental difference between what had to be done in Russia on the one hand and what in Hungary on the other. The Russian Bolsheviks had to fill a vacuum, as vast territories under their rule were without any credit organization. The Hungarian Communists had, on the contrary, first to destroy a fairly well developed credit system before introducing the new pattern.

It was a peculiar incident in the course of the Three-year Plan that the pattern of economy changed during its progress. To initiate these changes was a daring experiment, which amounted, in fact, to an alteration of the steering mechanism while under way.

The following table shows the progress of nationalization in the course of the Three-year Plan.

[1] Alexander Baykov, *The Development of the Soviet Economic System: an essay on the experience of planning in the U.S.S.R.* (Cambridge University Press, 1946).

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THE PROPORTIONS NATIONALIZED (PER CENT)

	July 1947	*July 1948*	*Dec. 1948*	*Dec. 1949*
Mining	91†	91	91	91
Manufactures	37·5	80	87	92
Transport	98	98	98	98
Banking	80	95‡	95	95
Wholesale trade*	—	16	75	100
Retail trade*	—	—	20	30
Agricultural land				
(*a*) State-owned	2	2	—	4
(*b*) Producers' co-operatives	—	—	—	2·6
Forestry	100	100	100	100

* Including publicly-owned co-operatives in terms of turn-over.
† The rest foreign-owned.
‡ The rest Russian-owned.

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CHAPTER VII

THE PLAN IN FULL SWING

SPEEDING UP INVESTMENT

DURING the first Plan year a start was made which appeared 433
favourable for the planners' claims. They could point to a considerable rise in industrial production. In spite of a bad harvest, the standard of living of the workers improved, while at the same time investments on a large scale were carried out. In some places the picture was obscure. There was the ominous lack of effective price control, and, in the background, the disparity between incomes and the supply of consumer goods. There were shortcomings in exports, and finally there was unevenness of fulfilment in production and investment. Yet, in overall figures the programme of industrial production was fulfilled, and even slightly surpassed, if statistics involving an evaluation of a wide range of manufactured articles could be regarded as precise indicators. This seems to have been a surprise to the planners themselves, for, in reviewing the results, the responsible official of the Politbureau divulged that, owing to deficient information on production levels at the time when the Plan was prepared, output had exceeded expectations from the beginning.

It might have appeared tempting to enlarge the programme 652
as soon as the possibility of better achievements became mani- [648]
fest. And soon there were more definite grounds for speeding up the execution of the Plan. One of these was a 50 per cent reduction of reparations due for the period following July 1948. This concession was made by the Soviet Government after the decisive political changes in the course of the spring of 1948, in particular the destruction of the Social-Democratic Party and the nationalization of manufacturing industry. The reduction was calculated to save budget expenditure exceeding 600 million forint a year; it was assumed that this amount could be diverted to investment. Though later on these hopes turned out to be unfounded, the prospect of saving on reparation account was used as an argument in favour of stepping up the capital programme. In fact, more than the amount of the reduction was required for the increase in defence expenditure, for the Plan, after its successful start, was more closely linked with military preparedness.

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There was another incentive, perhaps more powerful than these, for speeding up the Plan. The grip of the Government on the economy of the country and on labour became firmer after the events of the spring of 1948. In a short time the trade unions were transformed into Government agencies for furthering production. And meanwhile the political position of the workers had suffered a change, as the disappearance of the Social-Democratic Party and the reduction of the other coalition parties to mere shams virtually meant the adoption of a one-party system. These changes in the political sphere gave rise to the hope that devices, more effective than those previously relied on, could be employed to force up the productivity of labour.

In the economic field the direct control acquired over manufacturing industry provided rigid adherents of universal nationalization with an opportunity for planning a higher scale of achievement. They thought it necessary to demonstrate the superiority of nationalized industry over private enterprise, and here was their chance. In an important sector of the economy the necessity of a twofold administration of the Plan practically ceased. Instead of conducting discussions with the executives of private enterprises, direct orders could be given, through the hastily-organized industrial directorates, to factory managers appointed on the authority of the very same agencies. No doubts were allowed to be voiced as to the efficiency of a rigid centralization, it being dogmatically maintained that this move towards Socialism was bound to secure higher yields.

Under the Act on Nationalization, passed in May 1948, directorates for each branch of industry (numbering twenty-nine) were established. At first they exercised the supreme administrative authority, and were also the central operative agency of the industry concerned. After a tentative period these functions were divided. The Industrial Directorates retained the task of supreme administrative control, and became sections of the respective competent Ministries. On the other hand operative centres for the management of mining and industry were organized, one or more for each industrial branch, according to its importance or the dispersion of its plants over the country. The agencies co-operating at the top level were now the National Planning Department,[1] the Industrial Directorates, and a Section for Public Enterprises newly set up in the Ministry of Finance, the latter of course being principally concerned with the financial plans. It was the task of the directorates to mould the plans submitted by the enterprises of the industrial branch

[1] With the Raw Materials Board as one of its sections.

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controlled by them into a unit; they had to watch the fulfilment of the approved plans, and were to make provision, with the consent of the National Planning Department, for whatever changes proved necessary in any of the individual plans or in the sectional plan of the branch.

Moved by the considerations referred to, the planners decided that the capital programme projected for the period August 1947 to July 1950 should be carried out by the end of 1949. Accordingly, production was to be speeded up so as to attain the level originally planned for the end of a three years' period within twenty-nine months. The decision required a new subdivision of the 'Three-year' Plan in place of the three twelve-month periods. It was found convenient to abridge the second part into the five-month terms of August-December 1948, while the third was to run, like the first, for twelve months, from January to December 1949.

INDUSTRIAL OUTPUT AND EMPLOYMENT

It was intended that industrial production should be raised in the closing Plan period to double that of 1946–7. In the first year a 50 per cent increase was achieved. During this first phase of expanding production the enterprises were to draw on their 'in-door' reserves of man-power. Their capital investments were concentrated on the elimination of bottlenecks, so that disproportionate increases of production were made possible. In the following period no special factors of that kind operated. Additional labour was to be employed, roughly in proportion to the stepping up of production. Opportunities for setting whole workshops in motion by replacing some damaged parts at small cost were exhausted. The mainstays of further development, the increase of the labour force and massive investment, were bound to be coupled with more searching methods of organization and factory management if the objectives of the Plan, including the rise in productivity, were to be realized.

The progress of industrial production is indicated by the index numbers computed by the National Planning Department.

INDUSTRIAL OUTPUT (PER CENT)

	1938	*1946–7*	*1947–8*	*1948 Aug.-Dec.*	*1949*
Actual	100	60	92	100	135
Planned	—	—	88	—	127

After the 50 per cent rise during the first Plan year industrial production appears to have been raised again by nearly 50 per cent within a seventeen-month period. In the cases of mining

[See cat 116, pp 61-63--Analyst]

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433 and metallurgy, which are not included in the index numbers quoted, the quantity of production was made public:

	1947–8	*1949*	*Increase*
	Output in 1,000 tons		*per cent*
Coal and lignite	9,860	11,500	16
Steel	720	848	18

It is striking that a steep increase in the production of manufactures, and especially of capital goods, should be accompanied by no more than a moderate rise in the output of coal and steel. For lack of detailed statistics on developments in the last Plan year it is hard to explain this. As no figures of foreign trade are published, it is not possible to say whether an increased production of capital goods was maintained by imported supplies of these materials. From what had been disclosed as to industrial developments—indicating nothing more informative than increases in percentages, modelled on the Soviet pattern of statistics—it could be discerned that, besides engineering and the chemical industries, the production of building materials was accorded special prominence.

Apart from the general index of production, the information given does not enable us to compare the out-turn of the Plan in the field of industry with the level of production in the year preceding the Plan. The index showed that industrial output had more than doubled since 1946–7. In interpreting these index figures their comparability is open to doubt. Even if they can be assumed not to contain more than the inevitable statistical errors, qualities varied in certain branches of production. The change of quality, it is true, was for the better in coal mining. The separation of impurities was already much above the poor standards in 1946–7. Yet in important branches of manufacture quality was deteriorating. Textile experts admitted (though not publicly) that since 1946 the amount of raw material for producing cotton fabric had been reduced by 15–20 per cent per unit. These more loosely woven textile goods were sold at unchanged prices while the reduction in material enabled the industry to record increasing quantitative results. In mechanical engineering the technical standard suffered from the departure of a number of leading experts and the altered position of the technical personnel in the enterprises and the plants. Labour contests, by over-stressing results in quantity, also told against quality production.

No data are available for estimating the deterioration of quality in engineering or other branches of industry. In the absence of a measurable quality factor, all that can be said is that the impressive quantitative statistics of industrial output

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and Plan fulfilment mean less in terms of the satisfaction of human needs than they pretend. And even if it be admitted that the preliminary forecast was fulfilled or a little more than fulfilled in so far as quantities were concerned, there were other lines of fundamental importance in which a deficiency was revealed. The labour force which was required for maintaining industrial production on the scale intended appreciably exceeded what had been anticipated. It was expected, according to the programme, to be able to double industrial output through a 30 per cent increase in the average number employed. This expectation might, at first sight, appear over sanguine. It took account, however, of the extremely low productivity of labour before the start of the Plan, and it also relied on the effects of an improved and largely extended capital equipment. At the closing stage the Minister responsible for planning announced that the Plan provided employment for 200,000 work-people in addition to those previously engaged in manufacturing industry. In 1946–7 on an average 250,000 workers were engaged in manufactures. An increase of 200,000 would amount to a labour force of 450,000 in manufactures by the end of 1949. The Ministerial announcement appears to be an overstatement in the light of statistical evidence as released in the successive publications of the National Planning Department. These figures reveal some 415,000 employed in manufactures and about 70,000 in mining at the close of the Three-year Plan. The yearly averages for 1949 (derived from quarterly data) run as follows:

	Manufactures	*Mining and Metallurgy*
1946–7	250,000	59,000
1947–8	291,000	61,000
1949	382,000	67,000
increase against 1946–7	132,000	8,000
in percentages	53	13·5

Average employment in mining and manufactures in 1949 amounted, therefore, to roughly 450,000, in contrast to a planned employment of about 400,000 (310,000 increased by 30 per cent). This appears to be a 12 per cent excess of employment over the estimate. The general index of industrial production for 1949—135 compared with the estimate of 127 (based on 1938 = 100)—indicates an over-fulfilment by 6 per cent. But while the employment figure is real, the general index of production is unreliable. Though statistical errors may work in both directions, the differences in quality easily absorb more than the apparent increase of 6 per cent.

During the closing year of the Plan assiduous efforts were made to raise efficiency. The ground had been prepared by the

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433 461 previous introduction of piece-work on the most extensive scale possible. But a laxity in the calculation of the norms stood in the way of satisfactory results. At the beginning of 1949 a new attempt was made to suppress abuses connected with the norms by strengthening discipline. A new basic collective agreement was concluded, comprising all workers in mining and manufactures. In the wording of an official announcement, it aimed at making latent resources of production available through getting rid of obsolete norms. The working out of new norms was to be supported by the devices of Stachanovism, i.e. by the instrumentality of 'shock-workers', named after the first 'hero of work' in Soviet-Russia under whose name this method of raising productivity was started. Nevertheless productivity in manufactures, as recorded officially, declined during the first half of 1949. Renewed efforts were then made. A resolution of the Communist Party called upon the trade unions and works councils to concentrate their activities on issues of productivity and labour discipline. A huge propaganda campaign was launched in order to create a mass movement of socialist workers' emulation. By the end of 1949 almost half of the work-people were engaged, according to official records, in this kind of rivalry. All that was attained as a result of the struggle to raise productivity apparently consisted in making up the setback suffered during the first half of the year.

INCREASING FOOD SUPPLIES AND THE COST OF LIVING

241 433 During the years preceding the Plan, agricultural developments were marked by extremely poor harvests. Yields in 1948 might be appreciated as a stride towards restoring normality in agricultural production. The harvest of bread grains was still about 20 per cent below the pre-war average, but those of maize and root crops were well above it.

	Average 1934–8	*1946–7*	*1947–8*
	Crops in million quintals		
Wheat	22·2	12·6	15·8
Rye	7·0	5·6	7·2
Barley	6·1	4·0	7·1
Maize	23·0	17·8	29·6
Potatoes	21·3	14·6	23·3
Sugar-beet	9·6	11·6	15·9

Regarding the harvest of 1948–9 it was officially stated that the wheat, rye, and barley crops exceeded the yield of the preceding year by 25 per cent. This 'statistical' information might suggest that in this sector of agricultural production pre-war levels were almost attained, implying the disappearance of a

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shortage in vegetable food. Harvests in maize and sugar-beet were, however, disappointing. Failure of the maize crop explains why supplies in meat continued to be scarce.

It may be recalled that during the first Plan year the country laboured under a food shortage, with all its implications for prices and wages. The period August-December 1948 was the first since the monetary reform in which the cost of food declined. A reversal in the trend of agricultural prices, due to causes already explained, was the prelude to this change.

The extent of the improvement brought about by bigger crops might be illustrated by comparing the peak of the retail food index in February 1948 with the low point of that year in September: 159·9 against 113·9.[1] Prices then caught up again with a concomitant revival of the black market, as apportionment even of the low rations became irregular. It was a poor record of the state of efficiency in food administration. Political headquarters accused the peasants of sabotage. The countermeasures taken were not to produce palpable results till the following year.

Wage policy was adapted to the change of conditions. In contrast with the line pursued at the start in August 1947, the second Plan period did not open with a general rise in wages.[2] The pay-roll in manufacturing industry grew roughly in proportion to the expansion of employment. Average wages, as shown by official indices, were kept stable in mining and appeared to decrease slightly in manufacturing industry. The Government and trade unions were able to follow this line owing to increased food supplies reflected in declining official prices and owing to a diminishing dependence on the black market.

The publication of index numbers, as well as of other relevant statistical data, ceased in 1949. The National Planning Department, in a statement released to the press, claimed that real wages had increased by 20 per cent during the first half of the year. In the second half a further general rise by 5 per cent was recorded. In the earlier periods the upward movement of money wages had been induced and accelerated by soaring food prices. This time the cost of living was diminishing. The harvest of 1949 further improved vegetable food supplies. It was followed by the de-rationing of bread and by the practical disappearance of the black market for food. According to official statements the cost of living decreased by 7·4 per cent and the cost of food dropped by 12·4 per cent during 1949. Wage increases gained therefore a different significance from those previously

[1] See Table IV in the Appendix, pp. 137–8. [2] See p. 50.

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granted; their effect on purchasing power appeared reinforced by the reduced cost of living. These developments, combined with an increased output of manufactured consumer goods, resulted in improved living conditions. There can be little doubt that more abundant supplies resulted in an appreciably higher standard of living in comparison with the level at the start of the Plan, though statistical data revealing the degree of improvement are lacking.

INVESTMENT AND FINANCE

The first and one of the most important implications of the decision to shorten the total period of the Plan was the speeding up of the capital programme. For the financial side of the programme, the Government disposed of a banking system shaped according to the Soviet pattern, and entirely under their command. The bulk of investment was naturally financed, as before, out of the budget. It became a characteristic feature of estimates of investment that they represented minimum programmes. For the short second Plan period the estimate had been 1,100 million forint, while actual investment worked out at 1,530 million. For 1949 the corresponding figures were 4,300 million and 5,660 million forint. In a final report the latter amount appears to be raised by a further 630 million forint. In view of the tightness of financial controls, any exceeding of the capital programme (unless consequential on authorized increases in wages or prices) was impossible without a previous screening and consent of the authorities. An extension of investment, whether initiated by some Government agency or by the executives of one of the concerns, was to be fitted into the monthly financial plan, which was drawn up by the National Planning Department in co-operation with the Ministry of Finance, and had to be approved by the Supreme Economic Council. As the speeding up of the capital programme mostly affected heavy industry the extension of which was, not solely for economic reasons, the concern of the Government, initiative evidently lay mostly with the Government. Both the Government and the Planning Department were intent on extending the capital programme to the limit of technical possibility.

The increasing financial strain is reflected in the following figures:

	Monthly Average of Investment (million forint)
Plan period I	208
Plan period II	306
Plan Period III	470–520

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Investment was accelerated by 50 per cent in the second period compared with the first, and subsequently again by 50 or even 70 per cent in the third compared with the second.

In an endeavour to raise revenue for meeting requirements a new profit surtax was introduced, charging company profits which exceeded 5 per cent at rates of 30 to 50 per cent. Except in the very limited portion of industry which had not been nationalized the financial effect of this measure was nugatory. Simultaneously a purchase-tax reform was carried out, accompanied by an increase in rates. The reform secured that this form of taxation should remain the most important single item of revenue, with proceeds exceeding those of direct taxes. Further measures were taken thoroughly to exploit all sources of taxation, whether old or newly created. It seems that in spite of all these efforts the Treasury failed to raise revenue on the scale required by the increase of expenditure.

Provisional budget returns published in the official *Statistical Bulletin* relating to August-December 1948 show 3,697 million forint total revenue and 3,920 million forint total expenditure. Later, modified final figures were published disclosing a moderate surplus in place of the deficit of some 200 million resulting from the figures quoted above. It should be noted, however, that in an economy with industry largely nationalized, budget results are not conclusive without an analysis of National Bank loans. The nationalized enterprises being the most important borrowers from the Bank,[1] nothing seems easier than leaving deficits concealed in their accounts in order to relieve the budget, if this kind of window-dressing is wanted.

BUDGET ACCOUNTS, AUGUST-DECEMBER 1948
million forint (provisional)

Revenue	
Current items	3,541
Capital levy	118
Other extraordinary receipts	38
Total	3,697
Expenditure	
Current items	1,815
Deficits and subsidies	700
International commitments	449
Three-year Plan	955*
Total	3,919

* According to a statement based on computations of the National Planning Department: 985·1 million forint.

[1] According to a statement of the National Bank the participation of State-owned enterprises in the total of its loans reached 70 per cent by the end of 1948.

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652 Though reparation payments were appreciably reduced, the rate of total expenditure worked out at 50 per cent higher than in 1947–8. The following table reflects changes in the different groups of expenditure:

EXPENDITURE IN MILLION FORINT (MONTHLY AVERAGES)

	1947–8	*Aug.-Dec. 1948*	*Difference per cent*
Current items	249	363	+45
Payments for deficits and subsidies	64	140	+120
International commitments	142	90	−36
Three-year Plan	70	191	+170
	525	784	+50

Thus while there was a saving of 52 million on reparations, the excess of expenditure on other items, amounting altogether to 310 million forint monthly, was accounted for by the following: investment under the Plan, 121 million; payments for deficits and subsidies, 76 million; and current expenditure on goods and services, 114 million. Simultaneously with the sudden rise in the requirements for financing the Plan, there was a considerable increase in the current cost of administration. The higher outlay was partly explained by the necessity of adjusting civil servants' salaries which had lagged relatively far behind wages. The establishment of new departments and the extension of the scope of public functions also contributed to the increasing expenditure. The striking increase in the expenditure to cover deficits and subsidies needs some special explanation. There is reason to believe that these items included a growing outlay for armaments; some part of the increase in current expenditure might have been for the same purpose.

As to the sources from which the Plan was financed, 64 per cent of total requirements, slightly above the proportion recorded for 1947–8 (62 per cent), were provided by the Central Government. The indebtedness of the Investment Bank to the National Bank increased by 260 million forint. As in the case of the first Plan period, the Government, in its determination to rake out all possible sources for financing the Plan, succeeded in raising a substantial part of the funds needed by draining off purchasing power. Yet a residuum of about 17 per cent had to be secured by loans inflationary in character.

Information has been withheld in regard to the manner of raising the huge amount required for investment in the closing Plan year. According to the budget estimate for 1949, a total expenditure of 9,275 million forint was to be fully covered by tax revenue and surpluses of nationalized enterprises. For capital

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expenditure within the Plan 3,320 million forint were provided in the budget. As to the out-turn, the Minister of Finance declared in a speech delivered in December 1949 that the total expenditure was expected to approximate 13,000 million forint, an increase corresponding to that of the revenue. For investment under the Plan an amount exceeding the estimate by more than 1,000 million forint was appropriated.

The expansion of economic activity had to be supported by adequate credit facilities. During 1948 movements in the accounts of the National Bank were largely governed by technicalities in consequence of the reshaping of the banking system. The reform resulted in a concentration of the total current banking business within the National Bank. Note circulation, an item presumably unaffected by these shifts, rose between August and December by 27 per cent, a change in accordance with seasonal trends and the general expansion of the economy.

For 1949 the marked increase in production and employment was reflected in the upward movement of the loans granted by the National Bank, and in the corresponding movement of deposits, while the note circulation, quite out of accord with seasonal and general trends, declined in the second half of the year. It is true that, in connexion with the banking reform in 1948, provision was made for restricting the use of currency in settling business transactions. A ruling was then put into force according to which between nationalized enterprises amounts exceeding 500 forint should be paid by transfers on accounts. For payments outside this circle the limit for the use of currency was drawn at 3,000 forint. It is surprising, however, that this ruling should suddenly have had such a palpable effect as from the third quarter of 1949. Irrelevant though it is whether a strain on the financial system manifests itself in an increased circulation of bank money or of currency, it is not quite indifferent, in a psychological sense. It was on the note circulation that the attention of the Hungarian public, unversed in monetary questions, was focused. The following table shows the movements pointed out:

NATIONAL BANK OF HUNGARY

	Gold	*Foreign Exchange*	*Bills*	*Loans*	*Notes*	*Deposits*
			in million forint			
1948						
July	403	50	730	778	2,224	730
December	412	153	50	5,982	2,816	3,691
1949						
June	412	207	3	7,147	3,007	4,620
September	445	115	3	8,112	3,175	5,335
December	480	32	—	8,557	2,629	6,492

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COMPARISON OF NOTE CIRCULATION

in million forint

	1947	*1948*	*1949*
June	1,468	2,070	3,007
September	1,834	2,506	3,175
October	1,868	2,585	3,052
November	1,829	2,543	—
December	1,992	2,816	2,629

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Conspicuous changes were brought about by the Three-year Plan in the Hungarian economy. In the first phase the unfolding of the Plan was gradual. An ambitious capital programme was carried out to lay the foundations for later expansion. Employment in industry was increasing slowly, while a struggle against disabling food conditions was going on. Shortage of food played havoc with price control and wage policy.

During the second phase the capital programme was pushed forward at an accelerated pace. In industrial production the rate of increase, though considerable, was slower than at the initial stage. Expansion of productive activity was such that industrial unemployment was eliminated, and part of the unutilized man-power in agriculture was absorbed. The building trade, which had been very depressed up to the end of 1948, was included in the expansion. Its revived activities were in part directed to supporting the rearmament programme, and in part anticipated the requirements of the Five-year Plan to be started in January 1950.

Owing to more favourable crops, food conditions became normal and price control more efficient. But productivity in industry did not improve to the extent hoped for. In spite of all efforts to produce results by Stachanovite devices, the problem of reducing costs in manufacturing industry was not mastered.

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CHAPTER VIII

FUNDAMENTALS OF PLAN POLICY

INVESTMENT AND CONSUMPTION

As declared in the first clause of the Act on the Introduction of Economic Planning, the general objectives of the Plan were:

'For the purpose of accelerating the economic and cultural progress and of consolidating the democratic order in Hungary, and in order to raise the standard of living of the population, a Three-year Economic Plan . . . shall be established, specifying and ensuring an increase of productive power and its economic utilization and co-ordinating the various branches of production in the general interest of the nation.'

Whereas the primary objective of the Plan was to increase capital accumulation, it set out at the same time to direct production and employment, productivity, and costs, and, by regulating wages and prices, to determine the level of consumption. In the outcome, the results attained by the Plan exceeded or fell short of its objectives in varying degrees. In estimating the results, account should obviously be taken of the recovery which might in any case have been brought about by the free working of economic forces without any central planning. Productivity had been gravely impeded by shortages of materials, by the dislocation ensuing upon invasion, defeat, and monetary collapse, and by under-nourishment of the working people. The monetary stabilization in 1946 and the revival of imports must have gone far towards removing these obstacles.

However that may be, the Plan did give a definite shape to development. By forcing up the rate of capital accumulation, it may have actually retarded the revival of consumption. In order to pass a fair judgement on the potentialities of recovery without the specific driving force inherent in the Plan, one needs to bear in mind the inertia displayed towards fundamental issues in pre-war Hungary, be it concerned with agriculture or with unemployment. Had this spirit, hidebound as it was in financial orthodoxy, prevailed, an agricultural development scheme similar in magnitude to that included in the Plan could hardly have materialized. It was thus a specific feature of the Plan to impart simultaneously an impulse to the production of capital goods and consumer goods at least in so far as food was con-

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185 cerned. One reservation, however, appears to be justified. The stress placed on the development of heavy industry presumably hampered the expansion of light industry on such a scale as would have been attainable without the compulsion exerted by the Plan.

THE RATE OF CAPITAL ACCUMULATION

454 652 There is a peculiar dynamic quality inherent in the economic plans in Eastern Europe. All of them are intent on imposing a pace of development which implies strenuous present efforts for future results. An increased capital equipment has to be created to attain increased productivity. As foreign capital aid was excluded, additional equipment had to be produced from domestic resources, and to this end all available reserves had to be mobilized. It was this spirit of austerity, calling for individual sacrifice, which underlay the decision to devote 10 per cent or more of the national income to a capital programme, notwithstanding prevalent shortages.[1] This decision doubled the rate of net investment compared with pre-war, while a considerably reduced national income was also burdened with reparations to the amount of 6 per cent.

The grim determination of the planners to speed up reconstruction and the development of productive power placed the responsibility for the adoption of measures to secure an adequate capital supply on the central authorities. Individuals could not conceivably be allowed to decide upon the rate of accumulation according to their own preferences for future as compared with present goods. Compulsory saving became imperative, and it was effected mainly through taxation. From the outset all possible sources of revenue were strained to the utmost in order to produce a surplus large enough to finance the capital programme. The special capital levy proved a failure. It provided approximately 200 million in the first Plan year towards total requirements amounting to 2,500 million forint. The principal part of the funds needed was, in fact, raised from the general revenue. Consequent on the necessity to secure the means [651] wherever they were available, an intricate multiple system of taxation was maintained. Though direct taxes with progressive rates contributed a considerable part of the revenue, the mainstay of Government finance was the purchase tax, together with other duties and monopolies falling on consumption.

A system of compulsory savings through taxation does not exclude other devices for promoting savings. Spending can be

[1] This relates to the first Plan year. In 1949 net investment climbed up to 18 per cent.

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restricted by controls and rationing. But controls must be strict, and the average income level must be high enough to leave a margin after covering the rationed products. These conditions were not present in Hungary. The Government were the more intent on encouraging voluntary thrift, in the hope of closing the gap between the amount of investment and the surpluses available for capital expenditure in the central and local government budgets. To this end high rates for savings deposits (3 to 9 per cent according to maturity) were fixed. The results achieved were poor. Even conceding the attractiveness of high interest rates, conditions—economic and political—were all against a favourable result. In April 1948, before the re-casting of the banking system, deposits totalled 1,440 million forint. Considerable as the rise was compared with the early post-stabilization period, the amount attained worked out at no more than 15 or 16 per cent of the total deposits in 1938 in terms of real value. But even in the inter-war period with bank credit on a normal scale, no proper capital market to finance investment operated.

INTEREST RATES AND THE DIRECTION OF INVESTMENT

In a system in which investment and savings are determined by the decisions of a central authority, no functional connexion exists between interest rates and the volume of investment. It rests with the central authority to fix interest rates arbitrarily, or to renounce the use of interest altogether. The Hungarian planners decided that the Investment Bank should allot long-term capital to public enterprises free of interest, except that a token rate of 1 per cent could be charged, apparently to cover the costs of running the bank. For co-operatives and applicants that are partly publicly owned, the rate of interest on capital borrowed from the Investment Bank amounts to 3 to 5 per cent. Other debtors, i.e. private enterprise, are charged with 7 to 10 per cent. By far the greatest part of the investments financed from the budget through the instrumentality of the Investment Bank comes under the first head, and does not bear interest.

In contrast with this practice, interest is charged on short-term credit to finance working capital, for public as well as for private enterprise. According to arrangements put in force under the Plan the interest rate amounted to 5 per cent for nationalized enterprises, to 12 per cent for other industrial enterprises, and to 18 per cent for commercial firms. It may be mentioned that prior to the war a rate of 12 per cent was not unusual for normal bank credit (inclusive of the margin earned

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652 453 by the private banks). When the private banks disappeared, the differential rates were directly charged by the National Bank.

The following special interest rates were in force for agriculture:

	per cent
(1) For co-operatives running collective farms	5
(2) For other co-operatives and for members of co-operatives in category (1)	9
(3) For members of co-operatives in category (2)	11
(4) For other debtors	18

The scale of interest rates can hardly be said to have been inspired by purely economic considerations. It was rather on political grounds that private enterprise had to bear considerably higher rates than that which had been nationalized. In agriculture the Government were intent on favouring collective farming by discriminative credit practices. 'Working' peasants were allowed to obtain credit on conditions similar to those prevailing before the war. For others (excluded from the co-operatives) a prohibitive rate of 18 per cent was fixed, though it was hardly more than nominal since those owning holdings over [661] 25 yokes were denied credit facilities. One decisive consideration was, apparently, to exploit even rates of interest as a weapon of class warfare.

652 454 In a capitalist system based on free competition, the investment market determines the allocation of resources among the various openings for capital enterprise, and the long-term rate of interest is its principal instrument for the purpose. The Hungarian Plan rejected that mechanism, and the question remains by what considerations the Government or the Planning Department was guided in deciding upon the allocation of capital resources among industries. At the inception of the Plan there was hardly any alternative to deciding arbitrarily upon the direction of investment into the various channels in conformity with preconceived ideas about the relative importance of capital-goods industries and of some outstanding consumer-goods industries. But as, in the course of economic progress, the application of the Plan became more and more intricate, this first rough approach had to be superseded by more discriminating methods. Under conditions when production provides only for bare necessities a programme based on nothing better than guesswork will contribute to meeting consumers' needs. As soon as the economy progresses beyond this low standard, divergencies between the anticipations of the planners' and consumers' wants are likely to arise.

652 475 The exemption of publicly-owned enterprises from being charged with interest on their investment would not itself pre-

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clude an internal calculation of interest for the use of the planning authorities for the purpose of cost accounting. The inclusion of a hypothetical charge for interest would make more realistic the obligation imposed on the enterprises to earn profits for the Treasury. Net surpluses so calculated, after taking due account of costs, including the cost of capital engaged in the enterprises, might serve as a criterion for the guidance of the planners in comparing the desirability of investment. Yet the 'profits' delivered to the Treasury are not the outcome of an appropriate system of accounting. They are derived from the excess of receipts from sales over total expenditure. Replacements are provided for from a centrally-managed depreciation fund into which the concerns are bound to pay contributions separately fixed for each branch of industry. Characteristically enough these contributions are also based on the sales of the enterprises.[1]

The absence of a calculation of capital costs from the account makes the prices of the products of heavy industry relatively low. The resulting distortion of the price structure might have been corrected by varying the percentage to be added to the costs (consisting of expenses for materials, wages, replacement, and maintenance), on account of the margin of profit to be delivered to the Treasury. But that was not done; the margin was equal for the whole range of industry.

Perhaps the underlying idea was that the paramount purpose of fostering the expansion of heavy industry would be furthered by fixing low prices for its products. But it would seem that the low prices were of little practical effect in stimulating demand. Where, as in most instances, the products were bought by one publicly-owned enterprise from another, the price was merely a matter of book-keeping, and losses on the one side balanced gains on the other.

On the other hand, in the case of exports, any underpricing inflicts a definite loss on the economy. This point is not unimportant in view of the considerable deliveries of the products concerned to the Soviet Union.

The objection might be raised that a more realistic method of cost accounting would be of little relevance for directing investment when the greatest part of it (i.e. that in heavy industry) was determined regardless of economic considerations. Yet, whatever the objectives adopted on political grounds might be, it was possible to approach them in ways either more or less in accord with economic principles. The Planning Department certainly drew up calculations to enable a rough comparison to

[1] See below, p. 86.

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454 652 be made between capital expenditure and anticipated economies, taking account of the time factor when schemes of national importance were in question. To be more specific, when they had to choose between different big power development schemes, they attempted to compare the periods within which the economies to be achieved by the several schemes would equal the capital outlay to be incurred. However, this method fails to work in hundreds of ordinary cases, whether in heavy or in light [434] industry. Without the link between the consumers' demand and capital allocation, established by the use of a rate of interest in the cost calculation, it was not possible to determine accurately whether at a given moment the allocation of means to a textile-mill or a shoe-factory was more urgent. The planners did not regard refinements of this kind as matters of consequence. They believed that their targets for the production of consumer goods accorded largely with the needs of the ordinary man, and they did not appeal to the test of cost and price to determine whether at a given moment more textiles or more leather goods would have been indicated by the consumers' preferences.

454 475 652 In an economy lacking proper methods for the calculation of capital costs a danger of capital consumption arises, especially when the executives are pressed hard to remit the greatest possible surpluses to the Treasury whether genuinely realized or not. This danger was the more acute as allowances for replacement might be fixed much too low by the Planning Department. Undue cutting down of maintenance cost was another possible device for producing unreal profits. Even the men in control could only gradually discover whether this was actually taking place. On the model of Russian practice, the disregard of capital equipment as a cost factor appears to have been a point of principle. Whatever the real reason was, it is a fact that in the course of the Three-year Plan the system of accounting applied by the nationalized enterprises did not offer a reliable basis for deciding between alternative projects of investment. The practical relevance of this deficiency should not be overestimated. Calculations anticipating future developments are usually influenced by too many factors to leave a single item a decisive role. Moreover, in a planned economy the need for keeping down capital costs might often be deliberately overruled by other considerations. Even so the disclosure by current methods of accounting of what is being done would be useful. The Hungarian authorities deprived themselves of a convenient pointer, even though subsidiary in importance, for indicating whether capital supply in certain industrial sectors should be extended or curbed.

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PRINCIPLES OF PRICE POLICY

The Hungarian planners' conception of price policy was to secure conditions conducive to planning. This called for a stable price level, an aim which had been pursued (though not realized) in the interval between the monetary reform and the initiation of the Plan. Thus the guiding idea for price policy at first adopted under the Plan was to use the existing controls to establish and maintain a stable price level as an adequate basis for calculation. But presently the objective was modified in that a gradual reduction of prices at a later stage was aimed at. This reduction, which was to be brought about by levelling down industrial costs, was regarded as a means of raising real wages. Hopes were attached in particular to improvement in the productivity of labour, but the course of events brought them to nothing. The policy was to avoid disturbances of the execution of the Plan being caused by price movements, which would vitiate cost calculations and wage policy. Yet price policy was not regarded as an instrument of planning in the sense of bringing about adjustments of demand and production in a general way in order to facilitate the fulfilment of the Plan.

In an entirely collectivist society it would be a matter of expediency whether public expenditure should be met by taxation or by charging prices high enough to leave a margin for the Treasury to cover the cost of public services and investment under the Plan. This simple formula did not apply, however, to Hungary under the Three-year Plan, so long as some parts of manufacturing industry, handicrafts, retail trade, and, above all, agriculture were in private ownership. The co-existence of public and private enterprise called for a system of taxation to be applied to the whole of the economy. Soon after the general nationalization of manufacturing industry the authorities declared that the nationalized enterprises should pay taxes to the same extent as under private ownership. It followed that taxes had to be included in the calculations of Government-owned concerns. In addition these concerns had to deliver surpluses to the Treasury. In the budget for 1949 former sources of revenue were topped by a new one, the profits of nationalized enterprises. The margin between the prices charged for the public and the cost of products (without allowing for expenses centrally incurred) was to flow under two principal headings into the Treasury: taxes on the one hand, 'profits' or surpluses on the other.

Under conditions prevailing in Hungary two essential points had to be considered when fixing the prices for products of

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435 Government enterprises. One of these was the relation of prices to wages. The raising of the workers' standard of living having been proclaimed as the main objective of the Plan, the price of necessities was to be kept within the means of the wage-earners. This requirement had to be reconciled with that of avoiding the danger of inflation which would necessarily have threatened if the nationalization of enterprises had involved a gap in the public revenue. Prices were therefore fixed at a level conforming with the principle proclaimed by the Treasury. Once established, this level had a tendency to become rigid. As soon as fiscal claims appeared to be satisfied, social considerations gained overriding importance. This prevented the application of sliding purchase-tax rates as an instrument of adjusting supply and demand. In some cases a dual price system was introduced for manufactured goods used by the general public. In an attempt to reconcile conflicting economic and social aspects price increases for utility types, subject to rationing, were avoided, while the prices of goods outside the utility range were sharply raised. This expedient failed, as a rule, to achieve its object, the quantity available for sales on the free market being usually a fraction too small for bringing about perceptible adjustments.

The second fundamental point to be considered when fixing the selling prices of the products of public concerns was the relation of the latter to agricultural prices. A rate of exchange between the products of the industrial and agricultural portions of the economy must be found which keeps husbandry going and, beyond that, enables the farmers to develop their equipment. This aspect of price policy was particularly important if it was intended not only, as would be natural in the case of Hungary, to rely on domestic food supplies but also to build upon agriculture as one of the main export industries.

From the point of view of the methods of price policy three groups of commodities can be distinguished:

(1) Commodities with prices kept stable during relatively long periods, if need be by granting subsidies;
(2) Commodities with prices fairly adjusted to the market situation;
(3) Commodities with prices governed by controlled cost.

Group (1) includes important foods like bread, flour, fats, and milk, also coal and basic industrial materials such as pig iron and steel, the prices of which entered into the whole industrial price structure.

435 652 In the financial year 1947–8 (August to July) the stabilized price of bread and other food required subsidies amounting to

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88·5 million forint. It was much more expensive to keep coal and iron prices at the chosen level. In fact, the combined deficit of coal mining and heavy industry, which the Government had to cover, was nearing 400 million forint. It is true that this amount included expenditure for replacements and even for disguised capital extensions. Yet another 27 million was spent on iron price subsidies, and still a share in the financing of the deficit of the coal and iron industries was passed over to the National Bank. In the next financial year the visible burden imposed on the budget became less. Price adjustments and also cost reductions may have brought some relief.

The second group of commodities, with prices adjusted on the whole to the market position, consists mainly of those food products the supplies of which are subject to seasonal fluctuations, such as eggs, potatoes, and other vegetables. For these commodities the authorities were disinclined to adhere rigidly to the officially proclaimed standard prices.[1] There was in particular a group of Moscow-trained men in key positions who had a marked preference for a freer play of the mechanism of the market. They did not conceal their contempt for market control and rationing, as being unpopular relics of war economy, and they were quick to release these controls as soon as the supply position became somewhat more hopeful. Sometimes they succeeded in their action, so that the prices of the free market established themselves between the former black-market prices and the former official ones. But in some cases in which the adherents of the market mechanism had hoped to rake out hidden reserves by the liberation of prices, the action proved to be a failure. In the absence of appreciable reserve stocks, prices soared even above the former black-market level. The price movements of the articles concerned were therefore erratic, and hardly consistent with a planned economy. As consumers were compelled, in view of the extremely low rations, to buy part even of the rationed food on the black market, a considerable part of supplies changed hands at free or black-market prices. This is true in particular of the first Plan year. Thus food prices were determined to a large extent by the actual purchasing power of the consumers, and only in part by regulations issued by the authorities.

It would hardly be correct to qualify these short-term movements, representing adjustments to momentary supply

[1] The announcement of standard prices was mostly related to local markets. Violation of these prices did not involve an offence against the Act of Price Regulation. However, in case of heavy fluctuations administrative action was sometimes taken against excessive profiteering. An essential point in fixing a standard price was that the communal enterprises for food supply were bound to keep to it.

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435 situations, as a sign of the predominance of the market. Agri-
433 cultural production was, in fact, fundamentally guided by the decisions of the Government on the price relation between vegetable and animal products and by other measures more directly applied. Nevertheless, in some instances farmers may have been influenced in their decisions concerning cultivation or stock-raising by considerations of prices obtainable on the free or the black market. Thus even a market intended to be an instrument in the hands of the planners has retained a limited regulating influence of its own, and has left some latitude for the guidance of production by the consumer's choice. This applies to the urban as well as to the rural population. The farmer was free to choose whether to spend the money income left to him on buying implements, fertilizers, or textiles, and was able to decide in what proportions his money should be allotted to these different uses. It is obvious that the choice must depend on the relative prices and the quality of the products. When implements were offered which did not suit the peasants' requirements, they were rejected, and the production programme of several factories had to be revised. When prices were fixed too high, buyers' resistance resulted in an accumulation of stocks, which threatened to derange the economic process in the sectors concerned. Resistance of this kind was experienced from the peasants, who found that the prices of fertilizers were out of proportion to the grain prices in force in 1947–8. Similarly consumers were reluctant to buy the products of the food-preserving industry, as the prices were found out of range of their income level. In both cases prices as well as costs had to be thoroughly revised and special credit arrangements to be made for the period of absorption of excessive stocks.

434 The market, though subservient to the Plan, claimed its right.
433 It proved inevitable to acknowledge these rights to a certain extent in an economy based on money incomes. The planners were aware of this, and were prepared to heed warnings coming from the market, which was still regarded as a useful instrument. However, the field within which consumers' preferences could be effective had been from the first delimited. The extension of the capital-goods industries, being centrally decided, was not subject to that influence. The scope left to the consumer's choice was, in fact, to induce shifts in the production of consumer goods, but only after the fundamental allocation of resources to the production of capital goods on the one hand and of consumer goods on the other had been made.

435 The third group of commodities, those of which the prices were governed by controlled cost, included the wide range of

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industrial finished products. The price control was technically carried on on the old lines by a bureaucracy with methods derived from the practice of war economy. There was a tendency inherent in this bureaucratic control to accept ascertained costs as justified. Thus it was the cost of the least efficient producer which generally decided the price, without due regard to a necessary interaction of cost and prices. Hence the incentive to rationalization and higher efficiency was practically eliminated. This misconception was seen and fought against from the outset by the responsible authorities. The Government repeatedly directed the Office of Price Control to decree general cuts in industrial prices. The whole apparatus of price control, however, far from being efficient, proved slow in translating principles into practice.

The National Planning Department, in outlining the objectives of the Plan, in its first official publication declared: 'No step by step increase of prices should be tolerated, as it would create uncertainties in the various sectors of the economy'.[1]

Actual developments deviated from these objectives. During the year preceding the Plan the price index for farm products had almost doubled. The upward movement persisted, though at a slackening pace, in the course of the first Plan year. During 1947–8 the general price level rose by 9 per cent, covering price increases of agricultural as well as of manufactured products. But, while the upward trend of the former had flattened by mid-1948, and then gave way to a setback, industrial prices were steadily rising from July 1947 up to December 1948.

WHOLESALE PRICE INDICES*
January 1947 = 100

		Total	*Farm Products*	*Raw Materials*	*Industrial Finished Goods*
1946	August	99	87·6	98·7	102·5
	December	98·2	92·6	97·3	100·2
1947	July	120·1	170·5	110·5	104·8
	December	127·3	185	114·5	109·4
1948	July	130·9	182·1	120·7	116·3
	December	124·1	146·1	123·3	119·6
1949	May	123·9	147·1	121·6	119·2

* The publications of index numbers was discontinued after May 1949.

It is remarkable that the relation of industrial and agricultural prices was the reverse of that originally conceived. By the end of 1948 the index of farm prices (in spite of the preceding setback) exceeded the level of August 1946 by 67 per cent, compared with a rise of 17 per cent of the industrial price

[1] National Planning Office, *Magyarország Háromléves Terve—The Hungarian Three Year Plan* (Budapest, 1947), p. 46.

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435 index. This fundamental change in price relations indicated an improved position of the rural population. The improvement was considerable, even if the opportunities of selling some part of their products above official prices be disregarded. This development was enforced by economic facts; its operation seemed, however, to have been assisted by political considerations.

As far as farm products were concerned, price policy was imposed on the planners by the economic facts. Regarding industrial prices, governed by costs of production, the Plan pressed for improved efficiency and economy, and would not accept actual current costs as the standard. However, prices were being forced up by rising costs of materials and wages. Also managements tended to overstate their costs in order to enlarge their surpluses. The pressure exerted by these factors prevented the authorities from handling price policy as an instrument for planning production. So far as capital goods were concerned, no special stimulus was needed, for the Plan provided for their absorption at official prices. As to consumer goods, the authorities, haunted by the increasing costs, vacillated between the financial and the social points of view. Financial aspects were mostly dominant, yet as soon as consumers' resistance became perceptible (as referred to on p. 82) endangering sales of the products, hasty measures were taken to reduce prices. In a seller's market adjustments of this kind easily brought about the shifts desired, while the price reduction of the article concerned led to a re-examination of costs of production.

It is not possible to detect whether the tendency of the official policy of fixing prices according to the cost of the least efficient producer underwent some change. Possibly deficiencies of price policy were made up to some extent by the compulsion to produce increasing surpluses, the compulsion acting as an incentive to reduce cost. However, the pressure brought upon the executives of public enterprises might result as well in capital consumption.

SOME ASPECTS OF COST CALCULATION

451 Economy of costs in industry was an integral part of the Plan.
456 Progress in that field was, in fact, indispensable to fulfil so
435 ambitious a programme. Special attention, therefore, was given to the methods of costing. They were worked out with the characteristic limitation of excluding the calculation of capital cost (see pp. 76–8). The fundamentals of the costing system are worked out clear-cut in a decree issued by the Supreme Economic Council in February 1949. It was naturally based on

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previous rulings, which it completed in some detail, and gave greater precision on certain points. According to the decree price calculation has to be built up in three stages:

(1) Processing costs;
(2) Costs of management and distribution;
(3) Taxes and profit.

The total of the first and second groups makes up the actual costs, and the selling price is obtained after adding to these costs taxes and profit, constituting the third group within the calculation. A peculiarity of this scheme of calculation is that in its classification it throws prime costs and overhead costs together. The decree specifies the following under processing costs: materials, wages, social services, special processing costs (such as models or experiments associated with a special branch of production), and finally overhead costs, so far as these are not included under management and distribution. Allowance for replacement naturally constitutes a further element of cost. The rate of the allowance must be that fixed by the National Planning Department.

The decree on costing was intended, besides setting rules for accounting, to ensure adherence to the regulations concerning prices and wages. Any calculation containing prices for materials exceeding official prices was ruled out. Wage costs should strictly conform to the level fixed in the collective wage agreements, and any expenditure arising from laxity in determining the norms for piece-rates should not be admitted. Separate regulations set a limit for expenditure on the social welfare of the employees. Fees paid to experts and commissions to salesmen were to be paid according to officially-adopted tariffs. Advertising costs were only admitted if previously approved by the competent authority.

A further objective of the decree was to prevent uneconomic methods of production. Expenses for raw materials were to be accepted only for technically justifiable quantities. Elaborate regulations were designed to exert pressure on management to keep waste and faulty production within narrow limits. Losses on these accounts were to be calculated separately, and were admitted as costs only as far as they did not exceed the average in the industrial branch concerned. This average was to be determined by the Industrial Directorate, and losses above that level had to be borne by the enterprise. In particular, the inclusion of losses arising from defective production of whole series of articles in the cost calculation was not allowed.

These rules applied equally to privately and publicly-owned

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451 enterprises. Regulations applying particularly to the calculation
656 of the profits of private enterprises require separate mention. A profit rate of either 5 or 8 per cent on sales reckoned at factor cost[1] was fixed. It depended on the ratio between the yearly amount of sales and the capital of the enterprise which of the two rates should be employed. The higher rate was applicable when yearly sales did not amount to more than double the capital; in other cases 5 per cent was admitted. It was the competent Industrial Directorate that decided upon the classification of the individual enterprises from the point of view of profit-rate calculation. How this rough and ready system works has not been disclosed.

451 The same base was used for determining the scale of contri-
656 butions of public enterprises to the Treasury. It was the sales again that furnished the basis for the payments of the enter-
454 prises to the central depreciation fund. An earlier decree fixed
652 to that effect a wide range of rates up to 13 per cent to be paid in as depreciation allowance. These rates were, in fact, not applied. A skeleton decree authorized the Planning Department to determine the rates. There is evidence that they were fixed at a very low level, and, though contributions according to industries varied, they were not correctly adjusted to true depreciation needs. Payments due on account of the company's tax also conformed to the sales pending final adjustment. It was, in fact, a peculiarity inherent in the whole accounting system, to rule out the capital account from calculation, a practice involving, in view of the low depreciation allowances, the danger of capital consumption.

The obligation to provide for replacements by monthly payments into a fund administered by the Investment Bank was imposed on public and private enterprises alike. The common fund of the public enterprises was subdivided into an investment section and a replacement section. The former—25 per cent of the whole—might be used, on instructions from the National Planning Department, to cover minor investments. The reserves built up by nationalized enterprises could be redistributed irrespectively of the amounts paid in by individual concerns. By this provision a central depreciation fund for industry under the command of the Planning Department was created.

656 Regulations on costing aimed at preventing waste and un-
653 economical methods of production, and a series of measures

[1] Though not essential to the working of the Plan it may be mentioned as characteristic of the position of private enterprise that only the accessory bank charges connected with loans were admitted as costs. Interest could not be included in the costs; it had to be deducted from profits. This measure evidently aimed at deterring private firms from borrowing.

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were taken to ensure further rationalization in industry. Much attention was paid to standardizing industrial production. An institute was established under the auspices of which suggestions for reducing the manufacturing of tools to a few standardized types were soon carried into practice. Similar steps followed in textiles and also in other industries. The importance attached to the problem of rationalization was underlined by the vast propaganda encouraging workers' innovations. This widespread action presumably scored success even if a good deal be abated from the official tribute paid to it.

Important steps towards rationalization were taken following the transfer of manufacturing industry to public ownership. In several industries, first of all in engineering, specialization of plants has been carried out. In concentrating the output of tractors, of lorries, of certain tools and implements, the former dispersion of production among a number of factories was eliminated, and the way opened for more economic methods of production.

THE DRIVE FOR INCREASED PRODUCTIVITY

A substantial increase in productivity was one of the fundamental conditions of the fulfilment of the Plan. For the third Plan period the planners envisaged an average productivity of labour in mining and manufacture 50 per cent above the level of 1946–7. As pointed out above (p. 65), they hoped to double the volume of production with a labour force raised by one-third only. Both enlarged equipment and improved working methods were to play their part in attaining the result.

The objective appeared bold at first sight. Yet in 1946–7, with an average productivity of labour in industry between 65 and 70 per cent of that before the war, an improvement by 50 per cent did not imply more than a restoration of the former standard. Nevertheless the obstacles could not be altogether overcome. Half the distance was covered during the first Plan year. According to statements already referred to, in 1947–8 the productivity of labour was raised by 25 per cent in manufacturing industries and by 21 per cent in mining, compared with the average of the previous year.

In appreciating these achievements, the background has to be considered. They represent a second step towards higher productivity. The first had been taken in 1946–7 consequent upon the monetary reform, though inadequate raw-material supplies impeded a steady development of industrial production in that year. But the numbers in employment could not be

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433 [464] adjusted to the shortages of raw materials. In the absence of unemployment relief, the enterprises had to retain their workers irrespective of the enforced reduction of output. A considerable disguised or 'in-door' unemployment existed therefore in 1946–7. As a result of this kind of unemployment, a more plentiful and regular inflow of raw materials produced an apparent increase in productivity per head, because all the workers registered as employed were doing productive work. To the extent that this occurred, the improvement in productivity during 1947–8 cannot be claimed as a success of planning. It would no less have been brought about by any form of general economic recovery which ensured a more ample supply of raw materials. Increasing production, whatever the explanation, assisted the reduction of costs; and improvements in technical equipment worked in the same direction. These factors given, the decisive questions were to what extent managements were able to avail themselves of the opportunities offered, and how labour reacted. The answers depended on factory organization on the one hand and labour discipline on the other; and especially on a system of wages, calculated to relate wage costs to efficiency.

461 The main line of attack was recognized early enough. A steady pressure had been exerted since 1946–7 to introduce piece-work wherever it was technically feasible. Yet expectations in this respect were not realized. The workers did not agree with the methods applied, and they found ways, by pressure exerted in the workshops, to evade the norms fixed in collective agreements which had to be repeatedly revised. Under that pressure piece-rates were not fairly applied or were not correctly recorded. These practices involved higher earnings without an adequate increase in production. The managements mostly complied with the intentions of the workers.

Then the support of the trade unions was invoked, and, to enable them to fulfil their new function, they were reorganized according to industrial branches. In spite of all the efforts made, the terms of the collective wage agreements did not prove tight enough to prevent the manipulating of the norms.[1] The main motive of the resistance of the work-people against the proper handling of piece-rates was by no means political. Yet it was at the same time an expression of the fact that the rank and file of the workers did not identify themselves with the regime.

The enforcement of piece-work was coupled with a variety of devices to supplement the basic incentive. Steeply increasing premiums were awarded for achievements surpassing the stan-

[1] As pointed out in Chapter VII.

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dard norm. Soviet Stachanovite practices were transplanted to Hungarian industry. Press and party assemblies and, in fact, the whole country resounded with the propaganda in favour of workers' competition. The drive was extended from the factories to agriculture, to distributive businesses, and to offices. Besides individual contests thousands of workers' brigades were formed and soon shock-workers and shock-plants emerged, all of them serving the single purpose of giving support to a revision of the basic norms.

Besides these technical devices for raising efficiency there were also psychological methods. The special attention very generally given to innovations initiated by workers was only one part of the effort to capture the workman's interest in the results of his own work, as well as in the whole process of production. Serious attempts were made to improve the workers' understanding of the connexion between their achievements and those of the whole factory. It was under this aspect that the discussions of production and investment plans with the workers were insisted upon. Minutes on these discussions had to be submitted by the individual concerns to the Planning Department, together with their production and investment plans.

Incentives were provided for good management, and for the co-operation of work-people and higher grades in promoting efficiency. In such cases the authorities insisted on distributing the reward among the managers, technicians, and workers directly concerned, instead of spreading the premium over the whole plant. Further, steps were taken to encourage increases in profits. Public enterprises, which succeeded in delivering surplus to the Treasury up to the required level, were allowed to use 5 per cent of it for the benefit of their employees. If excess profits were achieved through economies, up to 20 per cent of the excess was put at the disposal of the enterprise. Instructions had been given that 40 per cent of these bonuses should be distributed in the form of individual rewards, while 60 per cent were reserved for the social institutions of the concerns.

In considering industrial efficiency, the implications of the radical reorganization of industry as a consequence of the transfer to public ownership should be taken into account. As already mentioned (p. 87) steps were taken towards a better division of labour in engineering and other industries. At an early stage specialization was furthered by concentrating the production of tractors, lorries, machine tools, and agricultural implements in separate units. The National Bank claimed in its Bulletin[1] that the public enterprises had made progress in the

[1] February 1949.

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field of specialization, and that, through the transfer of machinery that was not being used, bottlenecks could be eliminated in several factories.

However, the incorporation without adequate preparation of more than 600 enterprises in the publicly-owned section could not fail to have detrimental repercussions on conditions within the factories. The upheaval naturally entailed changes in the management. Leading industrialists, regarded as representatives of capitalistic interests, were eliminated first, and next a number of other managers and responsible technicians who were accused of unsocial behaviour. Former owners, even of small factories, who were personally connected with their business had to be turned out on grounds of principle. If their political reliability was not questioned, they might possibly be employed in other concerns or by the industrial directorates. These engagements usually did not last long, and most of the persons concerned left the country as soon as possible. All this occurred at a time when, in consequence of the establishment of twenty-nine industrial directorates and of an even greater number of operative centres for the different industrial branches, the need for industrial experts suddenly increased. The decision was then taken to promote workers to the executives, and in a series of industrial enterprises, including some of the most important, workers got leading positions. It should be stressed that amidst all these changes no adverse effects on the quantity of production were noticeable. In spite of deficiencies in management and factory organization, output moved upwards parallel with an increasing labour force, improved equipment, and enlarged capacities.

After a certain time rifts, not directly connected with the initial troubles, became perceptible. At the outset the managers of public enterprises had been endowed with the authority of decision proper to the position of responsible men. The importance of personal responsibility was repeatedly stressed in official declarations. Yet the influence of the bureaucratic industrial directorates prevailed. And a decree put in force early in 1949 introduced a system of dual control within the enterprises. According to this order the chief accountant of the public enterprise became responsible jointly with the director-general for the conduct of the business. The chief accountant was bound to hold up the execution of any instruction which in his opinion was not in accordance with the rules in force, unless he received a written order from the director-general. Whenever such a case occurred it was to be reported to the competent Minister and the Central Office of Control. The engagement, transfer, or

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discharge of a chief accountant was permissible only with the the consent of the competent Minister.

This method of dual control, which under normal conditions is a useful expedient for financial supervision, proves less efficient in an atmosphere full of suspicion, under the continuing threat of purges. The measure aggravated the prevalent tendency to shirk responsibility, which became a serious impediment in the management of enterprises. Delayed decisions obstructed adjustments. The bureaucratic methods of conducting business hampered exports.

Consequent on the efforts to reach the production quotas, or possibly to exceed them, emphasis was placed on quantitative results. The enforced acceleration of the pace of work in the labour contests was not conducive to maintaining the quality of products. The policy of encouraging lower-grade technical improvements within the workshop threw the importance of more substantial inventions, such as might effect improvements of quality, into the shade. The authorities did make efforts to encourage industrial research. But the attention of industrial executives, in particular of the new managers recruited from the workers' class, was centred on the workers' innovations. Remedial measures were tardily taken. It was only in November 1949 that a decree was issued on the establishment of committees for supervision of quality in the factories. At the same time the decree provided for training courses for the supervision of quality in the various sectors of light industry.

In summing up the results of these exertions,[1] we are faced with a question which has been the subject of much controversy with labour, the productivity per head in industry. Taking the volume of output per man-hour as a basis, the Planning Department stated that, compared with 1946–7, productivity in manufacturing industry had risen 25 per cent during the first Plan year. The Department claimed at the same time that during 1947–8 productivity per head had attained (on an average) 86 per cent of the pre-war level. In the course of the second short Plan period productivity improved, as it seems, slowly, attaining in December 1948 about 96 per cent of the pre-war level.

The Report of the Planning Department on the first half of 1949 stated that during this period improvement was unsatisfactory, the level of productivity being in June 4 per cent below that of the last five months of 1948. (The productivity level during these months was at an average slightly over 90 per cent of pre-war).

[1] According to press reports hundreds of thousands of workers were involved in the labour contests in the autumn of 1949.

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461 Unsatisfactory developments were underlined in a mass meeting held in August 1949. Responsible political and trade-union leaders, addressing this meeting, reproached the workers bitterly for their declining efforts in spite of increasing wages. Practices, including go-slow in order to enforce the modification of piecework norms, were condemned. These practices resulted, as the leaders complained, in the falling-off of the productivity of labour.

433 The Planning Department reported then on the third quarter of 1949 (without mentioning figures) that productivity had greatly improved after the summer vacations, i.e. after August.

The planners made a point of comparing results with those of 1938 so as to illustrate progress in terms of peace-time achievements. According to their original estimates, production in manufactures was expected to exceed output in the last pre-war year by 27 per cent (and in mining by 34 per cent), while the increase over that year in the industrial labour force was expected to be 25 per cent. It would seem therefore that they planned a re-establishment of the pre-war standard of labour productivity.

Industrial production attained, as stated by the National Planning Department, 135 per cent of the pre-war volume during the first nine months of 1949. In December of that year the Minister for Economic Co-ordination, when submitting the bill on the Five-year Plan to Parliament, declared that industrial output had by then surpassed the pre-war volume by 40 per cent. This result in the last month of the year could but slightly modify the three-quarters average of 135, and is far from substantiating the claim for a much higher achievement raised a few weeks later.

None the less the Final Report on the Three-year Plan (in the form of a communiqué of the Planning Department, released for the press) quotes some astonishing figures on industrial production and productivity. It is claimed that the programmes set for production in mining and manufactures were surpassed by about 20 per cent, so that the pre-war level of production was exceeded by 53 per cent. This claim includes that productivity of labour would have improved by 25 per cent in the closing Plan period, attaining thus 120 per cent of the pre-war standard. The figures presented in the Final Report are not reconcilable with the authoritative and official statements which were made in the consecutive stages of the Plan up to its closing period.

With the claim of a sudden rise in productivity per head a revised schedule on the improvement of productivity over the

3 [in productivity--Analyst]

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whole Plan period was presented. Within this schedule the 433
figure for 1946–7 appears considerably reduced, so as to make the rise in productivity under the Plan the more impressive. The revised figure for 1946–7 (58·9 per cent of the pre-war level against 69 per cent according to the former calculation) is inconsistent with the estimate of the national income of the year in question. This estimate was then endorsed by the Institute of Economic Research, a body with a scientific tradition.

While inconsistencies arising from the revised productivity figures are not confined to that past period, no explanation whatsoever was offered for the substantial difference between the figures of the Final Report and the statements of the Planning Department concerning the successive phases of the Plan. If these statements were correct productivity during the first eight months of 1949 was but slightly over 90 per cent of the pre-war level. To attain in 1949 an average of 120 per cent of the pre-war standard it would have needed a 170 per cent level for September-December.

The following table compares productivity indices (a) as registered in successive phases and (b) those claimed later on with output per head calculated from the indices of output and the average number employed.

	Manufactured output	*Workers employed*	*Output per head*	*Indices of Productivity* (a)	(b)
1938	100	288,000	100	100	100
1946–7	60	250,000	69	69	58·9
1947–8	92	291,000	91	86	82·7
1949	135	382,000	102	—	119·7

Figures of the output per head in the third column reflect the actual developments in the course of the Plan: a considerable improvement in the first year, difficulties and slow progress during the further stages.

The revised scheme on productivity and output carries striking incongruities. There is a lack of correspondence between productivity and output on the one hand and the increase of the labour force on the other. In 1946–7 at an average 250,000 workers were engaged in manufacture. If productivity between that year and 1949 doubled, a 70,000 rise in the labour force was bound to be sufficient for pushing up output by 125 per cent. Compared with 1946–7 the addition to the labour force in 1949 was not 70,000 but 132,000.

It has been pointed out (pp. 63–4) that as the expansion of heavy industry, in particular of engineering, was an outstanding feature of the Plan, the increase in steel output was surprisingly moderate (pp. 44, 63–4). The alleged accelera-

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433 tion in the closing Plan year resulted in a still greater disproportion between the rate of increase in the overall production in manufactures and the expansion of steel output:

RATE OF INCREASE IN PERCENTAGES

	1947–8 compared with 1946–7	*1949 compared with 1947–8* (*a*)	(*b*)
General index of production in manufactures	54·5	46·7	65
Steel output	41	17·7	

(*a*) based on the figures as recorded successively.
(*b*) based on the revised figures.

In view of the discrepancy revealed by these figures it might be questioned whether, based on a 17·7 per cent rise in steel output, a general expansion of industrial production even at the more moderate rate of 46·7 per cent was feasible.

433 316 A few specific facts on the development of productivity in coal mining might cast some light on the prevailing tendency. It is not suggested that productivity in the coal pits would develop precisely in line with efficiency in manufacturing industry. There is, however, a case for supposing that, as a result of a similar change in underlying conditions (better food, regular raw-material supplies, restored labour discipline, and improved equipment), the general trend of productivity would be parallel in both sections of the economy. Moreover, the data related to coal mining offer a firmer basis for the calculation of productivity since, instead of a vague general index of production, output in quantities is available. The facts read as follows.

	Output in million tons	*Workers employed (Yearly average)*
1938	9·3	37,100
1949	11·5	59,500

The figures require qualification in order to draw a fair comparison of productivity. The eight-hour shifts worked by the miners before the war meant an effective eight hours' work, exclusive of the time needed to get to the coal-face and to return to the pit-entrance. Since the end of the war this going to and returning from the coal-face was included in the eight-hour shift, implying that according to the distances, effective work was done for six to seven hours. Thus, given unchanged productivity of labour, a number of miners exceeding by 18 to 20 per cent the pre-war labour force would be required to extract an equal amount of coal. Making allowance for this change in net working hours the table above discloses a 24 per cent rise in output and an increase of 36 per cent in the labour force. This degree of productivity in mining cannot easily be reconciled with the progress officially claimed.

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The poor result is the more remarkable as much attention was given to the mechanization of the coal mines.[1]

On all these grounds put forward the claim has to be dismissed that subsequent to the Plan period a substantial addition to the output as recorded previously would have been discovered, entailing a most impressive improvement in productivity. A scrutiny of the facts indicates that the revision of the earlier figures did not result from the elimination of some statistical errors, but was a piece of political propaganda.

Developments during 1949 widened the gap between the cost and the productivity of labour. It was officially stated that average hourly wages in manufactures rose between January 1947 and December 1948 by 86 per cent. For the first half of 1949 a further 20 per cent rise was announced. Taking the figure for January 1947 as representing the average wage for 1946–7 (an assumption not quite correct, yet near the facts), in 1949 wage costs were roughly 120 per cent higher than in the basic year. Productivity in manufactures rose from about 69 in 1946–7 (1938 = 100) to 96 per cent by the end of 1948. As pointed out, further development of productivity was, if any, only slight, so that a rise of some 50 per cent in productivity compared with a 120 per cent rise in wages. While this kind of overall figure is far from providing a precise yard-stick, it does point to the existence of a considerable maladjustment between wage costs and productivity of labour. As it seems, the growth of wage costs has outstripped the cost-saving effects of greater labour efficiency. Improvements of the social services contributed to augment labour costs. According to a trade-union expert the outlay for health service and social insurance per head doubled in the first Plan year, and the final report of the National Planning Department says that the whole cost of social services in 1949 was met by employers' contributions amounting to 38 per cent of the pay-roll. There were no workers' contributions in the form of deductions from wages.

Labour costs evidently presented the main problem, but by no means the only one. In dealing with the costs of production, the head of the National Planning Department complained of the use of quantities of fuel and materials well above peace-time levels, and of the very little economy attained in this respect during the first Plan year. A matter of serious concern was the high rate of waste. In heavy industry it exceeded the pre-war

[1] In the first year of the Plan 110 million forint were spent on the re-equipment and extension of coal mining (total industrial investment including mining 792 million). For the later phases no figures are available, yet it was officially stressed that much had been done towards mechanization.

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433 461 level by about 50 per cent.[1] It had originally been caused by unsatisfactory labour discipline, but a further deterioration was brought about by the speeding up which the labour contests induced. In a number of cases the increase of waste was an unmistakable sign of sabotage. Thus the problem of waste became one of national importance, and the necessity to deal with it was stressed again and again in the propaganda for raising productivity.

433 The intense efforts concentrated on this issue show that the question of productivity was felt to be one of the vulnerable points in the execution of the Plan.

MAN-POWER POLICY

464 [185] The Three-year Plan was not designed to bring about full utilization of resources. Its natural effect was to raise the labour force in industry, but it did not look forward to the absorption of the entire available man-power reserves. It was not calculated to abolish altogether the chronic state of under-employment, which had been an outstanding characteristic of economic and social conditions in pre-war Hungary. Expanding industry was allowed to draw upon the man-power reserve through the mechanism of demand, as in the past. During the years between the two wars rural labour reserves were steadily attracted by industrialization, but the process was very slow in reducing the prevailing under-employment. Under the Plan the process of absorption was considerably speeded up.

In the absence of any comprehensive statistics on unemployment in Hungary, no official statement is available as to the size of the man-power reserve. The trade unions registered unemployment in industry, but there were no records regarding the main contingent of idle man-power, i.e. in agriculture.[2]

The only systematic approach to an estimate of agricultural under-employment is related to the year 1930.[3] In carrying out the inquiry, the amount of work required for the different

[1] Information leaked out on the unusually high rate of waste in some industries during the first half of 1949. In a foundry in Budapest, which had previously achieved outstanding performances, the waste was reported to have surpassed 6 and during one month even 9 per cent, compared with a pre-war figure of 2-3 per cent. In the whole of the weaving industry the waste fluctuated between 3 and 3·6 per cent; it attained in some of the factories 6 and, in exceptional cases, even 10 per cent.

[2] Had there been an unemployment insurance scheme, the numbers of those who qualified for benefit would have been recorded, but even so not the numbers of peasants whose efforts were incompletely occupied.

[3] Dr M. Matolcsy, *A mezőgazdasági munkanélküliség Magyarországon* (Unemployment in Hungarian Agriculture, Budapest, Hungarian Institute for Economic Research, 1933).

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branches of cultivation, given the existing state of mechanization, was first established. Average requirements per unit of area and year, measured in a man's working day, were stated as follows:

Pasture	1 working day	Horticulture	35 working days
Meadow	8 working days	Sugar-beet	40 working days
Cereals	8·5 working days	Tobacco growing	160 working days
Maize	22 working days		

The total amount of work required by farming, including stock-breeding, was calculated at 360 million working days. However, under conditions of full employment 471 million man-working days could have been done,[1] showing that 24 per cent of the agricultural labour power was utilized. Twenty-four per cent idle capacity in an active population of roughtly 2 million implies 480,000 'unemployed'. A method of comparing the working capacity of the active agricultural population with the amount of work required in agriculture does not, however, provide a substitute for statistics of unemployment. The committee responsible for the estimates and calculations was of a high technical standing. It failed, however, to approach the issue in a more realistic way by appraising the pure seasonal element of the calculated reserve. A certain amount of unexploited labour in recurrent slack seasons is unavoidable in agriculture. In Hungary the seasonal unemployment was of a much more serious character than in the Western countries with more intensive methods of cultivation. In a number of districts, especially in the Eastern parts, the labourers were for but three to four months of the year in regular employment, while during the greater part of the year they found casual work only. By improvements of agricultural production seasonal fluctuation of employment could, of course, be diminished.

A substantial amount of seasonal under-employment is in any case inseparable from agricultural work, and a substantial deduction must be made from the committee's estimate of 480,000 on that account.

An attempt was made to assess the surplus population in agriculture for 1937 in a study carried on by the P.E.P. Research Group on South-eastern Europe.[2] The group puts the figure of agricultural under-employment at 320 to 360 thousand. In addition industrial unemployment of 40 thousand was recorded. In this year mining and manufactures employed on an average 325 thousand work-people, 75 thousand more than in 1930. But

[1] Female and juvenile work reduced to man-working days.

[2] *Economic Development in S.E. Europe* (London, Oxford University Press for Political and Economic Planning, 1945), p. 39.

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464 the fact that in the course of seven years the number of the working population increased by some 200 thousand seems to indicate, even after taking account of possible extension of employment in professions outside industry, an agricultural man-power reserve of 360 to 400 thousand and a total unutilized reserve of 400 to 440 thousand if industrial unemployment is included.

The estimate of 400 to 440 thousand is practically applicable to the year 1938, with an employment of 330 thousand in mining and manufactures. That year, being accepted in the Report of the National Planning Department as representative for pre-war conditions, can be appropriately used as the base year in estimating the extent of the man-power reserves to be absorbed.[1]

There is still the question whether it is justifiable to accept pre-war estimates of man-power reserves when seeking to measure the scale of utilization of these reserves under the Plan. [161] Total population, numbering 9·20 million by the end of 1948, was slightly greater than that of 1938 (9·10 million). The war and its aftermath, together with the massacre of Jews, approximately offset the natural growth of the population during a decade. None the less shifts possibly occurred in the number of actively employable persons. The demand for labour in agriculture must have been, in particular, influenced by post-war conditions. Shortage of technical equipment and the urgent need of constructing accommodation on the newly-formed holdings were bound to create an extra demand for hands during the early post-war period. This extra demand had presumably begun to subside by the time the Plan started. Later on the progress of mechanization (establishment of tractor stations) and the improved supply of labour-saving equipment might have diminished the demand for labour. But the impact of the sub-

[1] In this context the question might be raised, is it justified to regard conditions in 1938 as representative, and, therefore, to choose this year as a basic period. In defining the economic position in this year the following facts have to be considered. Subsequent to the world economic crisis the turn of the tide was dated in Hungary from 1934. The upward trend gathered momentum during the years 1935–7, industrial employment showing higher records by the end of this period than during the boom of the twenties. The upward movement flattened out and the curve even declined, in some industries, during the first half of 1938. Yet the effects of a gradual downward swing of the business cycle were offset by the impulses emanating from the armament and public-works programme launched in the second half of the year. The support given to the domestic market by public orders also cushioned the repercussions of a decline in exports caused by the slackening of international markets. Though at the time conditions appeared unsettled because of political crises, employment during the whole of 1938 was maintained. In the light of statistical evidence a state of affairs prevailing in 1938, according to Hungarian standards of the inter-war period, was regarded as fairly 'normal', though, of course, nothing like a full utilization of resources had been approached.

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division of big estates into several hundred thousands of small units remained. The movement of population was not in itself such as to invalidate inferences from pre-war estimates of man-power reserves. The land reform on the other hand, brought about a shift in the agricultural labour market in tying much of the mobile wage-paid work-people to holdings of their own.

The National Planning Department presented the following comparisons on employment in the last pre-war year, the year preceding the Plan, and in the first Plan year; figures of the last column are based on estimates.

	1938	1946–7	1947–8	1949†
	Average number of employed			
Mining, metallurgy*	41,500	59,000	61,000	67,000
Manufactures	288,000	250,000	291,000	382,000
Transport	58,000	80,000	96,500	96,500
	387,500	389,000	448,500	545,500

* Coal mining with a share of about 90 per cent of the whole group.
† Estimates.

The table demonstrates: (1) that the number of employed in the three occupational groups together during the year preceding the Plan was practically the same as before the war; (2) that the Plan absorbed about 160 thousand workers. The figures do not include the building trade in which 120 thousand work-people were engaged, mostly seasonally, in 1938. Building activity suffered a depression, with only 30 to 40 thousand workers employed in 1946–7. Under changed conditions some tens of thousands of intelligent workers were occupied in the enlarged trade-union and party organizations. On the other hand, in 1938 the requirements of the armed services were at least 30 thousand higher than in 1946–7. There were some further factors tending to increase the supply of labour in industry and agriculture. Employment of domestic servants[1] greatly diminished compared with pre-war. Moreover, a number of workers formerly engaged in handicrafts were compelled by changed conditions to seek employment in industry.[2] The data quoted seem to indicate that, before the starting of the Plan, the unutilized man-power reserve was rather above than below that of 1938 (400 to 440 thousand). If this assumption was correct, it would follow that, taking account of the revival of building activity in the later Plan period, 45 to 50 per cent of the available man-power reserve had been absorbed in the

[1] They numbered about 150,000 before the war.
[2] In 1941 304,000 workers were employed in small-scale industry, in 1948 only 210,000.

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464 course of the Plan. Yet considerations regarding the possible impact of the land reform on reserves call for caution in drawing conclusions. Complaints of shortage of labour, increasingly voiced by the end of 1949, seem to indicate a shrinkage of available reserves. Shortcomings in organization might, of course, have contributed to the difficulties of labour supply apparently experienced at the closing Plan period. But if the labour reserve, in fact, neared exhaustion, that was only half due to industrialization under the Plan, and for the rest to the splitting up of the land, which, from an economic point of view, went much too far.

At an early stage of the Plan the shortage of skilled labour led to the intervention of the Planning Department, which, in conjunction with the Ministry of Industry and in co-operation with the trade unions, provided training courses. But, apart from that, the supply of labour from the reserves was such that the recruiting of man-power caused no difficulty, and no comprehensive central control over the labour market was instituted till August 1949, to take effect in the course of the following eight months. A department was then established to take over the labour exchanges which had been run by the trade unions, and to regulate the labour market by plan.

Under conditions prevailing in Hungary even the steep rise in industrial production, as achieved under the Plan, could only gradually abate under-employment; the more so, as it was one of the main objectives of the Plan to raise labour productivity. In so far as this objective was realized employment would not increase in proportion to output. The Hungarian planners, when trying to enforce rationalized methods of production, were, of course, aware of the consequences to employment. The head of the National Planning Department said in his account of the first Plan period: 'The Three-year Plan deals with industrial unemployment and makes a start in liquidating unemployment in agriculture, which assumed vast dimensions during the past decades'. Unemployment registered as industrial was always but a small fraction of the unutilized man-power reserve. But the idea was that the full use of these resources might be realized under a second Plan.

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CHAPTER IX

TECHNIQUE AND ADMINISTRATION OF THE PLAN

PRIVATE AND PUBLIC ENTERPRISES

FROM the point of view of an entrepreneur or of the executive of a public concern, planning first presented itself as an obligation to fill up endless forms. But this incident of control was not inflicted equally on the whole range of enterprises. Public enterprises and some other important concerns or industrial groups (engineering, textiles) were under tight control. But outside this sphere central control was loose, as the individual plans on which it was based had been intentionally kept vague, so as to avoid too specific commitments, and to leave the executives space for manoeuvre.[1] Yet in one respect a definite direction was given all along the line. The drive to raise production was directed no less upon producers who were not controlled in detail. Quite apart from the pressure of the representatives of the Planning Department, who were eager to record better results, the producers themselves were interested in utilizing capacity to an increasing extent. The interest of the entrepreneurs began to diverge from the fundamental trend of the Plan only when their opinions differed about the remunerativeness of investments proposed by the planning authorities.

That is not to say that private enterprise would otherwise have followed the lead given by the Plan without reluctance. Yet the expansion of production required by the Plan was in line with the aims of the entrepreneurs, so long as confidence in the preservation of the system of mixed economy was not completely shaken. Even when anxiety about nationalization was growing, it was risky to contravene the Plan by curbing production. Thus the tendency of the private owners to withdraw capital did not manifest itself in slowing down production, but in the endeavour to carry on production by the aid of credit to the largest possible extent.

It was left to the executives of public as well as of private enterprises to conform to their specific obligations under the Plan. They were responsible for applying for fuel and raw-material allocations, for procuring the necessary labour force, tools, and equipment, and for obtaining adequate credits. In many respects they had to fill gaps caused by incomplete co-

[1] As described in Chapter IV.

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471 ordination of the work of the authorities. The executives were, in particular, supposed to collect adequate information on the prospects of raw-material supplies when submitting applications for credit. This information was mostly derived from official sources: the Raw Materials Board, or the Ministry for Foreign Trade; yet in a number of cases it was supplemented by anticipations based on special knowledge of sources of supply.

With a view to the control of the manufacturing process, the Planning Department attempted at first to keep account of every detail, right down to the output of individual products within the different concerns. Later, in view of the rapid expansion of production, it was recognized that control could not work in such detail. After some hesitation the National Planning Department confined itself to watching the flow of production of each individual concern as a whole, with little regard to whether some of their workshops were ahead of their schedule and others lagged behind it. The overall figure of current production of a concern was estimated on the basis of the number of workers engaged in the different sections of production. The relation of the wage costs to the value of products was worked out for the various sections of the manufacturing process within the concerns. The Planning Department exploited these calculations in order to control on broad lines the rate of expansion in industrial production.

The local representatives of the Planning Department were in a position to exert current control, provided they had sufficient expert knowledge. The heavy penalties inflicted for any offence against the Plan generally sufficed to prevent any shortcoming on the part of the executives. They were, in fact, anxious to secure approval in advance for any change in programme. This practice contributed to the tightening of control, imparting at the same time a bureaucratic character to the whole system.

AGRICULTURE

241 The individual farmer's production was directed by local
656 agricultural committees established through the agency of the
647 National Union of Working Peasants.[1] The counties and districts, with their respective departments and committees, operated as intermediate organs behind those local bodies. Central direction emanated from the Ministry of Agriculture, which was responsible jointly with the National Planning Department for this part of the Plan. The local boards deter-

[1] See above, p. 39.

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mined the production plan of the individual farmer, and exerted permanent control over his activities. The growing of certain products was brought into more direct relation with the general production Plan by being placed under the centralized control of special agencies. Contracts were concluded between the individual farmers and these central agencies. This system, which was called production 'under contract', ensured the farmers guaranteed prices and specially favourable conditions for production. The contracting farmers were to receive quality seed, fertilizers, and credit facilities. On the other hand the obligation was imposed on them to adopt improved methods of cultivation as worked out by Government experts. The grower was, as a rule, under the obligation to deliver the whole produce of the contractual area, which was kept under control by a staff of supervisors. Another variety of these contracts, less frequently applied, stipulated the delivery of the produce only up to specified limits. The grower then was entitled to dispose freely of the part of his crop exceeding the determined maximum. The maximum, however, was usually based on yields considerably above the average crops in the produce concerned. On a more limited scale this special form of control of production had been applied in the inter-war period and during the war. In 1948 about 10 per cent of the arable land was cultivated under contract, so as to produce improved qualities of seed-grain, oil seeds, or tobacco.

Planning in agriculture was not confined to determining the proportion of the areas to be devoted to the different branches of cultivation. Besides the production plan there were other plans, i.e. time-tables set up centrally for ploughing, sowing, and harrowing. The existence of these plans implied, on the part of the local committees, a permanent control of the work to be done by the individual farmer. He was required to report and to make application for assistance, for example by borrowing implements or tractors, whenever it was wanted to carry out the work prescribed. Any omission or delay might incur a charge of sabotage. It was the duty of the local and district branches of the National Union of Working Peasants, in co-operation with the authorities, to provide what was necessary. This could be done through arrangements with one of the State-owned tractor stations (which, besides tractors, disposed of threshing machines and other equipment). An alternative was to hire from farmers who had draught animals or agricultural machinery to spare. These farmers were obliged to lend at officially-fixed rates of compensation.

The final test for the farmer was the compulsory delivery of

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241 grain, oil seeds, fat, and pigs. Smaller holdings had to surrender
656 fat. The owners of holdings over a certain size were obliged to fatten pigs for delivery, up to a prescribed minimum weight.

It was a common feature of the measures taken in order to control agricultural production that they were applied, in particular in the latest stages, with a severity not justified by purely economic considerations. For political reasons it was intended to go beyond economic necessity, so as to provide a weapon in the campaign by which the wealthier part of the peasantry was to be annihilated.

AGENCIES FOR CO-ORDINATION

647 The National Planning Department, as the centre of the
471 whole economic system, was endowed from the outset with wide powers. The Department started with a small personnel, on the assumption that it could make use of assistance from other Departments for special tasks. Battling at the beginning with difficulties within its own organization, the supreme planning authority had to divide its attention between the current work of control and adjustment and what may be called the strategic line of planning.

As an inevitable consequence of the hasty manner in which the obligations of producers under the Plan had been drawn up, applications for the approval of alterations poured in at the time when the checking and co-ordinating of the individual plans submitted were going on.[1] Alterations approved for one concern were often bound to involve changes in dependent industries. This was recognized, yet a workable co-operation between the Planning Department and the Ministries of Industry, of Transport, and of Public Works, in order to master the problem, was but gradually evolved. Until better co-operation was achieved, many disturbances had to be overcome, amounting even to a stoppage of plants caused by delays in decision. In a number of cases the executives preferred to interrupt production rather than take personal responsibility in the absence of new directives.

The National Planning Department considered the drawing up of investment projects beyond those published in the Plan to be one of its paramount tasks. This was in accordance with the policy of speeding up the production of capital goods. The schemes were prepared, use being made of capital programmes worked out before the introduction of planned economy. The schemes were kept in reserve, in order to be launched as soon as

[1] See Chapter IV.

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their realization appeared feasible. Priority was given to the development of electric-power production (based on deposits of lignite), as this was considered the most restrictive bottleneck in industry. [471] [47]

The individual quotas, covering half a year and divided up by months, became operative in so far as estimates of raw material supply were correct. These latter were a specially vulnerable point of the production forecast. In the intial stages checking of individual estimates were, except for a few key industries, incomplete. Co-operation between the planning authorities and the Raw Materials Board was loose; a deficiency caused partly by political and departmental rivalries, the Planning Department having been Communist, the Raw Materials Board, as a section of the Ministry of Industry, under Social-Democratic control during the first phase of the Plan. To eliminate this impediment, the Raw Materials Board was later merged with the National Planning Department which, at the same time, took charge of price control.

The establishment of the Investment Bank in September 1948 was another step to complete the organization of the central planning authority. The Bank was operated as the financial section of the Planning Department.

The Planning Board, established in accordance with the fundamental Act on the Three-year Plan, worked as an inter-departmental co-ordinating body. The major part of the members of this Board acted as liaison officers between the Ministries concerned with economic affairs and the National Planning Department. Regular meetings of the Board kept the Government Departments currently informed of the designs of the central planning authority, thus enabling the Departments to influence decisions at a preparatory stage.

The Planning Department played an important role in shaping credit policy. It drew heavily on the resources of the budget and was a most important claimant of National Bank credit, as a further source for financing the capital programme. Moreover, the Planning Department was closely concerned with the allotment of credit to provide the different industries with working capital, since the execution of the Plan was dependent on it. The Department participated through its representative at the Inter-departmental Committee for Credit Allocation in preparing the monthly financial and credit plans, and was also represented in the Supreme Economic Council, which gave the financial plan its ultimate shape. [652]

It was only in June 1949, during the closing period of the Three-year Plan, that the organization at the top was altered

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647 with a view to a smoother co-operation. The Supreme Economic Council was then superseded by a People's Economic Council, with the National Planning Department, the Central Statistical Office, the Central Control Office[1] and the Office for Man-Power Economy under its direct control. The President of the Council is the member of the Cabinet responsible for economic planning. He is a super-Minister, for under his command are the Ministries for Finance, Agriculture and Food, Heavy Industry, Light Industry, Public Works, Home Trade, and Foreign Trade, i.e. all Government Departments concerned with economic affairs. As previously, the chief executive for planning was the President of the Planning Department, a member of the People's Economic Council with Cabinet rank.

ADMINISTRATION OF CREDIT

652 452 [647] A national credit plan was to be drawn up monthly, based on the financial plans of the enterprises, which had to be submitted in support of credit applications. The individual proposals were first screened by a preparatory committee consisting of the Ministry of Finance, the Planning Department, and the National Bank. The draft plan prepared was then discussed and possibly modified in the Inter-departmental Committee for Credit Allocation (p. 36), and brought subsequently before the Supreme Economic Council for final decision. There the credit plan was considered in connexion with the monthly budget estimate. The amount of money issued during the month was decided on with reference to the balance of the budget, the excess of credits to be granted over repayments, and the estimated increase of deposits (taking into account the sales and deliveries of foreign exchange as a minor factor). The Supreme Economic Council, anxious to avert inflation, fixed a ceiling for the issue of bank notes from month to month. It was understood, in principle, that a gradual expansion in accordance with the growth of production should be permitted. But the Plan dictated a quicker pace. The members of the Council, when confronted with the problem of reconciling conflicting economic and financial considerations, had to choose between reducing budget expenditure and curtailing credits. Among considerable items of budget expenditure investment was the most elastic. At times the Planning Department made concessions by postponing one or another of the projected works or parts of them. But the Council generally refrained from resisting the expan-

[1] An organization created on the Soviet pattern with the task of supervising the finances of public administration and of public enterprises.

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sionist tendency of the Planning Department. It preferred to fix the limit of the note issue below what the Plan might be expected to require, without making a corresponding cut in the budget expenditure for the capital programme. Consequently credit had to be restricted to avoid exceeding the limit. When extreme pressure was felt later in the month, the Council might revise the limit. But even so credit did have to be restricted.

The following summary of monthly credit plans shows typical seasonal changes in requirements. They are based on details thrashed out in successive committee stages.

	1948 August	1948 December
	in million forint	
Agricultural loans	66·7	43·9
Advances to agencies for food supply	179·6	1·9
Loans to rural co-operative shops	36·6	3·0
Industrial credits	118·2	73·0
Credits for financing foreign trade	65·0	65·0
Loans for Plan investment	30·0	30·0
Others	10·0	10·0
Total:	506·1	226·8

Before applications for credit were approved by the Credit Committee, the uses to which the amounts to be raised would be put were scrutinized, and their conformity with Plan objectives was, of course, checked. Control, however, was not restricted to this prior checking of the credit applications. Accountants of the Credit Committee could at any time make inquiries as to the correct use of the amount borrowed. Departure from the prescribed line constituted a serious case of sabotage. The inclusion of a representative of the Raw Materials Board in the Credit Committee provided a link between the availability of raw materials and the allotment of credits.

Though every loan granted had to be within the Plan, applicants had no guarantee that they would obtain the amounts needed for the fulfilment of their obligations under the Plan. The ceiling for note circulation, determined by the Supreme Economic Council, necessitated a selection even among credits which were needed to carry out Plan objectives. But a postponement of the granting of a loan was not accepted as an excuse for slowing down production. The enterprise concerned was expected to find ways and means of expanding its production in conformity with the Plan. In some cases a way out was found by forced sales which depleted stocks. This expedient worked, however, only during the first phase of the Plan, when a wholesale trade with a capital of its own was still in existence. The

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sales were arranged with the knowledge and, in some instances, with the support of the public authorities, though the initiative, as a rule, came from the industry concerned. The expedient most frequently applied, however, was the postponement of less urgent commitments. The criterion of urgency was whether a postponement of payment would or would not stop production. Tax payments were suspended, as were disbursements to suppliers of raw materials, who were not in a position to threaten to interrupt deliveries immediately needed. These practices indicate the intensity of pressure brought to bear on production. Postponement of meeting obligations, while helping individual concerns to overcome momentary embarrassment, was bound to affect the financial system at other points. Tax revenue would fall into arrears, or repayments of advances by some of the suppliers concerned would be postponed. To a certain extent the method of fixing a ceiling for the note issue may have retarded monetary expansion, but it could not stop it.

Inside the credit administration there was a fundamental change in the position of the National Bank. The shaping of credit policy in the Committee for Credit Allocation rested with the representatives of the Supreme Economic Council's Secretariat, the Ministry of Finance, and the Planning Department. The members of the different Government Departments (Industry, Agriculture, Public Works) represented sectional interests. The National Bank with its delegate in the Committee provided at the same time the Secretariat of the latter. This secured the Bank an important position within the Committee though chiefly in a technical sense. For amounts not exceeding 10,000 forint (£200) the Committee delegated to the Bank its power of deciding upon the allocation of credit. The Committee itself was authorized to decide on individual loans up to 1 million forint. Above this limit decisions were reserved to the Supreme Economic Council.

The National Bank was not obliged to grant loans approved by the Committee. The Bank was expected to act with the circumspection of an ordinary banker in examining the solvency of the debtor and other circumstances which might influence the security of the credit. On such grounds the Bank had discretion to refuse credits which had been approved. The practical importance of this remnant of a credit policy of its own declined, however, with the spread of public concerns with Government-guaranteed liabilities.

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TIGHTENING CONTROLS

It was intended from the outset to place the conduct of business, whether of private or of public concerns, under a strict financial control. Full use was made of accountancy to examine the relation of cost and prices, and general issues of rationalization (in so far as publicly-owned enterprises were concerned), and there were investigations on special questions such as the use of loans. But financial control, as conceived in the second phase of the Three-year Plan, went far beyond the limits of elaborate accountancy. The reshaping of the entire banking system, started in the second quarter of 1948, was designed to establish a permanent current control of every move of the enterprises.

The so-called single-account system was introduced to the end of organizing a huge unified financial department for all public enterprises and for those private concerns specially designated. Each had to open an account with the National Bank, through which receipts and expenditure and financial operations of every description had to pass. In order to ensure a closer control, the single account was sub-divided in accordance with the various items of the financial plans (raw materials, wages, taxes, investments, etc.). The National Bank, therefore, was in a position, by comparing receipts and disbursements with the financial plan of the enterprise concerned, to exercise a continuous check upon its conformity with the Plan. Evidently the whole complicated system was drawn up to ensure control in pursuance of the Plan. Instructions from the holders of the accounts are carried out by the National Bank in so far as they are found to be in accordance with their respective financial plans. Outlays will be allowed only if they accord with the relevant estimates. Moreover, the National Bank is given discretion to transfer, without the instructions of the holder of the account, amounts due for taxes or for any other liability. If he has not a balance sufficient to meet his liabilities at maturity, the debtor is required to pay a penalty at the rate of one per thousand per day on the arrears.

This system of supervision precluded the possibility of granting a credit or of borrowing, except through the instrumentality of the National Bank. Thus a credit monopoly was conferred on the Bank, and not only was any other source of credit excluded, but suppliers were even prohibited from allowing deferred payment to their customers. The National Bank had to be notified of the sale-purchase, in order to debit immediately the ingle account of the buyer, and to credit that of the seller.

As to the question to what extent this absurdly rigid system

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471 worked, the scanty reports leaking out after 1948 indicate that
655 its functioning was far from satisfactory. Exigencies of economic life proved to be stronger than strict rules, and the rules were not adhered to in relations between suppliers of goods and their customers.

Special Investment Control

433 Imperfect synchronization of the delivery of capital goods
454 with the rhythm of plant expansion was a difficulty hard to overcome. It was experienced from the beginning, and could not be eliminated in the later stages owing to the rapid progress of expansion. A report published in the official Government paper by the end of 1949 reveals the handicaps of production persisting throughout the Three-year Plan. For example a special committee had to investigate conditions in a heavy industry plant of outstanding importance, where the main causes of unsatisfactory results were stated to be the lack of tools and irregular raw-material supplies for the machine shop.

454 The Investment Bank was in charge of the permanent control
655 of investment activities, including the synchronization of operations. The allocation of funds for investment to individual concerns was determined by the Planning Department in co-operation with the Industrial Directorate concerned and the Ministry of Finance. The amounts allocated were then transferred to the account of the Investment Bank. The Bank was to supervise the execution of the work and to time disbursements in accordance with its progress. It had further to register deliveries connected with Plan investments. The causes of any delay exceeding a month had to be investigated, and a report of the inquiry had to be sent to the Planning Department and the Ministry concerned. It was the duty of the latter to take the necessary steps to prevent further delay and to notify the Planning Department of the action taken.

Defects in carrying out the investment portion of the Plan were summed up in a final report on the Three-year Plan, published by the President of the Planning Department, as follows: 'The investment plans did not reckon with the capacities of production and foreign trade. The result was that investment credit far exceeding practical possibilities (in particular the supply of equipment and the progress in construction work) was sometimes granted. Thus large amounts remitted to the Investment Bank remained unutilized, while there was a lack of funds for other investments.'

454 The control of investment in agriculture and small-scale
474 industry was handed over to the National Credit Institute of
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Co-operative Societies. As the centre of the rural credit co-operatives, it disposed of a network of branches over the countryside. These branch offices were insufficiently staffed with experts even before their political reorganization, which meant the expulsion of the wealthy peasants. Little is known of the extent to which the newly-established Rural Credit Councils (i.e. the Boards of the local co-operatives) were able to assist the authorities in keeping investment in agriculture in line with the Plan. The Councils were militant political bodies rather than committees of experts.

A RIGID SYSTEM

The conception of the planners was to make the economy effective by imposing a multiple system of controls on it. The National Planning Department, assisted by the different Government Departments, was the principal agency of the controls. Yet with all its wide powers, the efficacy of the Planning Department in supervision and direction was limited. Another centre of control was created by the reorganization of the National Bank. The establishment of the single-account system seemed to offer the planners a device for checking economic activities in all their successive stages.

Tightness of control was thought to be essential for the execution of the Plan. But according to the original conception control was confined to production. The Plan, as drawn up in 1947 on the basis of a system of mixed economy, envisaged a detailed regulation of production, but it was assumed that the flow of consumer goods would roughly correspond with the creation of purchasing power through increased production. This assumption failed to take account of the vicissitudes of price controls and wage policy. During its first phase the Plan did not extend its control to the activities intermediate between production and consumption, i.e. it did not apply to trade. Wholesale dealers (and even less, of course, the retail traders) were not bound to submit plans concerning their prospective turnover, though they had to report on man-power employed, or apply for approval of investment in so far as it exceeded the 200,000 forint mark. The existence of this stratum preserved a certain resilience within the economy. It proved, in a way, helpful in overcoming difficulties in the administration of the Plan, though the activities of the dealers may, in some instances, have been a nuisance to the planners. When the ceiling for the bank-note circulation prevented the allocation of credit required for carrying out production demanded by the Plan, the concerns affected some-

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656 433 times found a solution in forced sales to merchant firms which had command of capital. These firms again were able to assist in relieving the difficulties of publicly-owned concerns by taking over, at a sacrifice of price, stocks which had accumulated to excess in consequence of delay in adaptation to unexpected shifts in consumption.

[442] This safety valve for the planned sector disappeared in the second phase of the Three-year Plan as soon as wholesale trade was transferred to public ownership. The methods of operating the Plan and the entire economy became more rigid than before. The activities of wholesale trade were assigned to a limited number of monopolistic trading companies, each of them concerned with the products of a branch of industry, or a complex group of agricultural produce. The sales departments of the manufacturing concerns were merged with their respective trading companies, following the principle (almost made into a dogma) that manufacturing and trading activities should be separated. All these changes involved a bureaucratic spirit in trading.

461 433 The rigidity of the system was aggravated by a personal factor, which is inherent in an order of strict centralization, the shirking of responsibility on the part of executives. Another unceasing difficulty in the way of prompt adjustments of production was the scantiness of reserves of raw materials, semi-finished products, and spare parts. All these reserves were extremely low when the Plan was started, and though the worst gaps were soon filled up, it was hard to keep pace, all along the line, with the requirements of a rapidly-expanding production.

In spite of all these frictions and obstacles production was forced up. It was a grim determination which helped the planners to overcome difficulties. But their production drive owed its success to a considerable extent to the fact that shortcomings due to misconceptions or failures in calculation could be counterbalanced by drawing on unutilized reserves of manpower.

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CHAPTER X

AN UNBALANCED ECONOMY

SAVINGS AND CONSUMPTION

ONE of the main objectives of the Three-year Plan was to channel a much larger part of the national income than ever before in Hungary into investment. The task was the more formidable as at the start production and national income were considerably below pre-war level. Moreover, this smaller income was mortgaged by reparations due to Russia, Yugoslavia, and Czechoslovakia. In the first Plan year 6·5 per cent was diverted on this account; afterwards reduction of the amount due and an increase in the national income reduced the burden to 3 or 4 per cent.

The total amount to be invested was determined at the outset, yet in the course of the Plan period this amount was continuously enlarged. The size of investment was the given quantity, and the means for financing were to be secured in any event. A slowing down of the Plan for lack of funds was out of the question. None the less, monetary stability having been regarded as a condition favourable for carrying out the Plan, the intention was to apply methods of financing calculated to drain off purchasing power. To this end serious efforts were made to raise the greatest part of the savings wanted through the compulsory power of taxation. Voluntary savings were expected to contribute a moderate quota (10 to 15 per cent) for financing the Plan.

Compulsory savings were effected by producing a budget surplus by means of taxation and through profits on public enterprises. Beside public savings, private corporate savings were of some importance during the first phase of the Plan. The significance of the latter faded and that of public savings correspondingly increased after the general nationalization of large-scale and medium-sized manufactures. On the strength of the ruling regarding private enterprises with approved specific plans, accumulations of these concerns were placed under the control of the Planning Department. Thus from the point of view of planning three categories of savings could be distinguished: (1) public savings, (2) private (corporate) savings under public control, and (3) private savings outside the planned sector. It is remarkable enough that categories (1) and (2)

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454 652 provided for 80 to 85 per cent of the requirements for capital expenditure during the first Plan year and the second shortened Plan period.

Private savings were to a certain extent absorbed by investments carried out outside the Plan. They were not of negligible importance in agriculture. There was an increase in livestock of an approximate value of 500 million forint (at current prices) in 1947–8. This sole item amounted to almost 20 per cent of the total capital programme of the Plan. The farmers were anxious to replace their livestock, and had at the beginning, in particular, very limited possibilities of procuring machinery and instruments. A smaller proportion of rural savings went into buildings. The thrift of the peasants, practised even under unsatisfactory living conditions, provided means for these investments. Many of them were also able to take advantage of prices on the black market. Later, in the spring of 1948, the peasants profited by the lifting of price control from a number of their products. Subsequently they were benefited by larger crops.

Within the system of mixed economy, accumulation in trade and in small-scale industry was also significant. These classes were able to take advantage of the black market. But the beneficiaries of profiteering mostly did not seek productive investments. Their earnings, derived from charging prices quite out of relation with the general income level, caused actual dissaving by many of the urban population. The possible degree [435] of profiteering may be gauged by the wide range of differences between officially fixed and black-market prices as registered in May 1948 in Budapest.

	Official Price	*Black-market Price*
	in forint per kg. (2·20 lb.)	
Bread	0·92	5·0
Flour	1·40	8·50
Fat	12·0	23·50
Beef	8·40	12·0
Sugar	7·20	12·50

Speculative profits were bound to encourage luxury production, and thus to divert resources from utilization in accordance with the Plan. When spent, the profits were likely to pass through the black market again. Gradually these illegal profits lost their significance owing to the tightening of controls, and even more, to the improvement of supplies. But evasion of exchange control and the concealment of illicit profits were among the factors which caused the authorities to abandon the idea of launching a loan in the first year of the Plan.

Failing the issue of loans, financial requirements could not be fully met by savings (whether compulsory or voluntary). During the first and the second Plan periods 15 to 18 per cent

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of the capital programme had to be financed by the National Bank. During the first Plan period the effect of these inflationary credits was accentuated by developments on the market of consumer goods, attributable on the one hand to the fatal shortage of food and on the other to the absence of planning in wage policy.

The conception which the planners accepted from the existing controls was to adjust wages and consumer incomes in general to the available amount of consumer goods. This was but a vague idea.[1] No current control was provided for ensuring a parallel movement between incomes and the flow of consumer goods. Soon prices as well as wages were beyond control. Price fluctuations on the food market made inroads on purchasing power, causing changes in the relative real incomes of the different social groups. The wage-earners did not fare badly so far as the distribution of available consumer goods was concerned. But the race between wages and food prices gave rise to an inflationary spiral. To what extent the purchasing power of the different groups of society—at times even that of the wage-earners—must have been heavily impaired by the rise in the cost of food was indicated by the fact that the official index temporarily exceeded by almost 40 per cent the level of July 1947. It was, therefore, inflation rather than controls which kept down consumption, helping the Government in directing resources towards capital-goods production. Similar developments might have been experienced in the wake of inflation in any economy without planning. A certain proportion of the funds invested was squeezed out of the consumers through soaring prices.

BALANCE OF TRADE

The heavy strain under which the economy laboured during the first Plan year was bound to affect the balance of trade. In the absence of a surplus of agricultural products, exports lagged far behind the planned level while imports caught up.

FOREIGN TRADE*

	1946–7	*1947–8 actual*	*1947–8 planned*
	at current prices in million forint		*at January 1947 prices*
Imports	944	1,901	2,117
Exports	837	1,422	2,100
Balance	−107	−479	−17

* Referring to exports-imports on a commercial basis. Exports on account of reparations in 1947–8 amounted to 1,376 million forint, standing against an import surplus of 479 million in the balance of trade proper.

[1] Compare pp. 50–1.

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439 The configuration of the balance of trade of 1947–8 is typical of a country with expanding investment, rising consumption, and a concomitant inflationary pressure. As a result of the inflated current prices, foreign trade fell short of the amount planned by more than the comparison of figures discloses. According to the officially-computed indices of export and import prices, values in 1947–8 are to be reduced by at least 20 per cent to allow for the price increases which followed January 1947.

Returns of foreign trade ceased after 1948. In the calendar year 1948 exports and imports were nearly balanced (1,933 million against 1,975 million forint), thanks to the improved harvest of 1948 which permitted forced agricultural exports in the autumn months.

Allusions to a relative increase of foreign trade in 1949 suggest that commercial exports and imports moved around 3,000 million forint each, thus establishing a balance. It was, if really attained, a very remarkable achievement in view of the rapid industrial expansion and the resulting increased needs for raw materials and equipment. It has to be remembered that heavy reparation deliveries were still going on. A considerable export surplus had, in fact, to be produced in order to attain a balance of commercial trade.

ATTEMPT AT RESTORING INTERNAL BALANCE IN 1949

433 In contrast with developments in 1947–8, there was a fundamental change in conditions in 1949. Food shortage was eliminated and the cost of living stabilized. Wage increases in the first half of this year had different economic effects from those afforded during 1947–8. The latter were largely designed to cover minimum requirements for food, whereas a rise in wages in 1949 meant additional demand for food or manufactured goods, which apparently could be met by improved supplies. This increase in supplies was sufficient, as it seems, to offer an increased attraction for tens of thousands of work-people drawn from under-employed rural districts into industrial occupations. To some extent the supply of consumer goods exceeded current production through increasing sales of furniture and other belongings by members of the middle and professional classes who had been deprived of regular income.

434 652

652 The turn of the tide on the commodity markets now counteracted the possible effects of an inflationary injection of money. The Bank of Issue was still financing a part of the capital pro-

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gramme. In view of the vastly increased financial requirements, it is hard to believe that they could have been fully met without inflationary financial methods.[1] In 1949 the capital programme absorbed almost one-fifth of the national income, compared with one-tenth in the first Plan year. The decision of the authorities to launch a loan in autumn 1949 in support of the Five-year Plan was presumably taken in order to forestall inflationary pressure. This loan generally affected wages and salaries, and was to be paid in monthly instalments, thus tapping personal incomes. The issue of the loan was decided upon as soon as real earnings appreciably exceeded the minimum level of the early Plan period.

More effective control was enforced on the food markets, and the race between food prices and wages was stopped. A modified wage policy, combined with increased supplies of consumer goods, brought about a closer approach to a balance between incomes and supplies than had been possible in the confused conditions of the first year of the Plan. Yet the balance, even if attained, was bound to be precarious. The economy laboured under an immense strain during the closing year of the Plan. The capital programme required 18·5 per cent of the national income. And there were quite a number of further items which reduced the amount of goods available for consumption. Accumulation to some extent was going on outside the Plan. The resources for increased private investment in agriculture were provided by more satisfactory harvests and by the expansion of livestock. An item of minor importance, which was still continuing, was investment in small-scale industry. Reparations were due, though imposing a relatively diminishing burden on an increasing national income. Eventually there was, as an important item, the replenishment of stocks.

The Three-year Plan was started with depleted stocks of raw materials, semi-finished, and finished goods. According to expert estimates the expansion of production, which the Plan provided for, would necessitate an increase in stocks to the value of 6,000 to 6,500 million forint over the whole Plan period. The planners never made any allowance for this item in their estimates of the improvement of consumption. In fact, the replenishment of stocks on the scale suggested taxed current consumption at a yearly rate of 9 to 12 per cent of the national income.

In the following table the attempt is made to estimate the proportion of the national income left for consumption.

[1] As shown in Chapter VII, out of a Plan investment totalling 6,300 million forint the amount covered by the budget was 4,300 million.

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	1947–8	1949
	in percentages of national income	
Capital programme	10·5	18·5
Private investment	3–4	2–3
Reparations	6·5	3·5
Replenishment of stocks	10–12	9–11
Total burden	30–33·0	33–36·0
Available for consumption:		
from domestic sources	68·5	66·5
Residue of balance of trade	2·5	—
Total	71·0	66·5

The planners claimed that the capital programme was *net* investment, excluding replacements, and their computations of national income were drawn up accordingly. But this claim was not free from uncertainty, for a certain amount of the disinvestment going on was not taken into account. An item which was not negligible in importance in this respect was the deterioration of house property. A part of the rent was earmarked for maintenance and repairs, but this was not sufficient by itself to prevent the deterioration, and the owners found themselves deprived of any net yield. There is also reason to suppose that there was a certain amount of disinvestment in industry. It has been seen that the executives of public enterprises were placed under pressure to produce financial results. It is inherent in a system of this kind, especially one which has no adequate accounting methods, that some part of the surpluses disbursed really represented capital consumption, so that net investment under the Plan was less than was officially claimed. No estimate is possible of the correction to be made in the rate of capital accumulation on account of such disinvestment.

But that is an issue of the future, not directly affecting the actual position. The crucial point is a capital accumulation amounting to roughly 30 per cent of the national income, if the indispensable additions to stocks are included. The curtailing of current consumption by that rate would hardly be conceivable in a country of the income level of Hungary unless under a heavy political pressure.

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CHAPTER XI

REPERCUSSIONS ON INTERNAL STRUCTURE AND EXTERNAL RELATIONS

INTERNAL STRUCTURE

THE programme of reconstruction and expansion of industry contained in the Plan was, on broad lines, realized. Industrial equipment was not only replaced after the damage suffered, but considerably improved, even if allowance be made for concealed arrears of replacements. In agriculture some steps, though not decisive, were taken towards mechanization, based on a network of State-owned tractor stations. The rate of recuperation was speeded up by the development scheme.

In manufacturing industry structural changes took place. The shift towards the capital-goods industries has already been described from different aspects. The idea was, by means of the structure, to lay the foundation for a large-scale industrialization. In the light of recent developments it should be remembered, however, that the Hungarian production of capital goods is by no means destined for the exclusive supply of the home market. A considerable part of the output of heavy industry is earmarked for reparations, a further part—consisting mainly of vehicles and products of electrical engineering—is destined for export to the Soviet Union under commercial agreements. Even so, these exports left a margin for re-equipping Hungarian industry and transport. The trend of development is shown by the fact that during the closing Plan period the production of the capital-goods industries exceeded by 74 per cent the pre-war level, in contrast to a rise of about 20 per cent in such important consumer-goods industries as textiles and footwear.

An additional employment of 175,000 workers in mining and manufacturing industry, amounting to an increase of 56 per cent over 1946–7, made a start in drawing off the man-power reserve from agriculture.[1] The rapidity of this process as it developed in 1949—even apart from the shortage of skilled labour—might have caused local tensions in the labour market, as the recruiting of the reserves was not organized. The under-employment of man-power in Hungarian agriculture was partly a consequence of the subdivision of the land into very small

[1] The figures relate to the number of employed by the end of 1949, if yearly averages are compared the increase amounts to 45 per cent.

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464 units, and the rate at which it could be eliminated was uncertain. As to the scale of industrial employment brought about by the Three-year Plan, it was not unprecedented, for a similar level had been recorded in 1943, though only at the peak of the war-time efforts.

A rise of the labour force in manufactures up to 415,000 (excluding small-scale industry and the whole building trade), together with an additional 70,000 employed in mining, could not be qualified as a new phase of the industrial revolution in face of a total actively engaged population of 4·3 to 4·5 million.
433 Nevertheless the Plan did bring about a change, and a definitive one, in the economic position. Not that it altered the economic structure of the country, for the changes in industrial production were mostly through extensions at existing centres. Besides the re-equipment of a great number of workshops, there were, of course, new factories built. In line with the much boasted self-sufficiency in capital goods, the engineering industry was set the new task of extending the scale of machine-tool production, a section hardly existing previously in view of a restricted
[371] market. For an external observer the most conspicuous change in the field of industrial development was perhaps the expansion of power generation. It was raised by 70 per cent in comparison with pre-war production. Besides providing sufficient current for industry, the extension resulted in the inclusion of quite a number of country districts, hitherto without electric current, in the network of supply. Still, the general picture presented by Hungary's economy at the close of the Three-year Plan, in so far as the degree of industrialization was concerned, did not fundamentally differ from that remembered in pre-war times: an agricultural country on its way towards industrialization. The change-over to an industrial community is to be realized by the new Five-year Plan contemplating an industrial labour force exceeding the million mark at the end of 1954. This programme requires the establishment of a great number of new factories. Accordingly it is intended to spread industry over the countryside and also to create new industrial centres.

TRADE RELATIONS

241 An appraisal of trends in external relations appears possible
423 only if viewed against the background of pre-war conditions. In this context changes in agriculture—past and impending—are of consequence.

In replacing large-scale farming by subsistence farming on one-third of the agricultural area, the land reform tended to

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reduce the volume of grain surpluses in comparison with the quantities available prior to the war, but, on the other hand, to favour the raising of livestock. The Plan, on its agricultural side, was designed to support this tendency.

However, the objectives of agricultural policy go far beyond this development programme. The Government are determined to reorganize production in conformity with the Soviet *kolkhoz* pattern, that is to create large units by merging the peasant holdings into collective farms. Results of the efforts made in this direction have hitherto been slight. The peasants did not yield to propaganda or to indirect coercion. Presumably the pressure will grow. The opinion evidently held in official quarters is that it is through the *kolkhoz* that substantial improvements in the methods of agricultural production are to be hoped for. A reorganization on these lines would at the same time offer the authorities an instrument for tighter control of agriculture. Big units under central command could also serve as a lever for directing the agricultural labour reserve. This direction appears to be a point of paramount importance. Industrialization, as foreseen by the Five-year Plan, implies a heavy drain on the rural man-power reserve; it is bound, in a not too distant future, to involve the imposition of labour-saving working methods in agriculture to release labour.

It is a matter of speculation how the peasant population would react in case of coercive measures for establishing the *kolkhoz*. Under the conditions prevailing it would be very difficult and dangerous to attempt sabotage. Nevertheless if the measures were pressed home ruthlessly, resistance on the part of the peasants might cause a setback in agricultural production.

No signs of this turn of events are, so far, discernible. Hitherto the approach to land collectivization has been cautious. If a clash can be avoided, one has to assume that the agricultural programme will work and will yield certain results. The recovery in livestock, not yet complete, then will go on. In addition, there is plenty of room for improvement even in the elementary processes of agriculture; the effects of these improvements on yields may for a while easily outstrip the increase in domestic requirements caused by the growth of population. Yet there is another point possibly impairing export capacity in food: higher food consumption induced by improved nutritional standards resulting from the redistribution of incomes. However, the first wave of additional requirements can be supposed to have been satisfied. It can equally be supposed that this improvement was reflected in the export surpluses in recent years. Nutritional standards were the worst among agricultural

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146 labourers. A substantial number of them having been promoted to be smallholders, they were, of course, anxious to improve 439 their diet as soon as the opportunity was given them. As to the urban population its food supplies were on the whole satisfactory during the closing Plan period. It seems probable that a further improvement of real incomes would rather induce a shift towards higher-quality food than an overall increase of food consumption. This consideration suggests that an agricultural surplus, similar in order of magnitude to that in 1949, might be available, necessarily subject from year to year to the fluctuations of crops.

439 It is only for a small fraction of the food surplus, which may be estimated on an average at some 100 million U.S. dollars, 433 that the Russian orbit offers a market. Soviet Russia is a buyer of certain quantities of pigs and of some special products like quality seeds. Czechoslovakia offers a market for meat, fats, and feeding stuffs. But the bulk of the agricultural surplus has to be sold in the West. Despite an extremely poor harvest in 1947–8, 24 per cent of total exports were shipped to Western continental countries, and another 17 per cent to Great Britain. These deliveries consisted mainly of food and other agricultural produce. Since imports of Western Europe, in the main groups of food products and fodder from overseas, were round 5,000 million dollars (at 1948 prices) in 1948 as well as in 1949,[1] Hungary's surplus might be easily spread over the area, even if one or the other of the countries concerned, for political reasons, did not favour imports from Hungary.[2] It appears on the other hand most essential for Hungary to dispose of her agricultural surplus. In spite of the growing importance of raw-material supplies from Russia, certain industries like rubber are entirely, cotton mills and other branches of manufactures partly, dependent on supplies from outside the Russian orbit, and must be paid for by exports which earn sterling or dollars, all the more so since the breach with Yugoslavia, which was one of the suppliers of copper and tin. Another point of importance, in view of the vast capital programme in progress, is that proceeds of agricultural exports can partly be used for purchases of equipment in the West.

Notwithstanding the diminishing relative importance of agricultural exports, there are strong grounds for holding that Hungary is still dependent on Western markets. Difficulties of

[1] U.N., Economic Commission for Europe, *Economic Survey of Europe in 1948, 1949* (Geneva, 1949, 1950).

[2] The imports of Western Europe from Eastern European countries in the commodity groups in question amounted, according to the E.C.E. *Survey*, to 603 million dollars in 1938 and to 219 million in 1949.

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selling agricultural surpluses in the West are bound to cause a calamitous dislocation of the Hungarian economy, unless the Soviet Union, for political reasons, should decide to absorb the surpluses. This would leave Russia as the only important market for Hungarian exports. There seems little likelihood, however, of a development which would impose the obligation on the Soviet rulers to deliver equipment and raw materials of primary importance against products which they have not hitherto regarded as indispensable.

Soviet Influence on Trade

No doubt an increasing part of the burden of securing imports of raw materials and equipment to support a rapidly expanding industrial production will be loaded on industry itself. Pre-war Hungary possessed for her limited surpluses of manufactured goods—processed food, textiles, electrical appliances, and equipment—markets in the West as well as in the East of Europe, but not in Russia. The pattern of trade is now entirely altered. The Soviet Union enjoys an unchallenged priority in respect of the products of heavy industry. The same applies to aluminium and oil. In addition Hungarian textile industry is liable to deliver a considerable part of its output to the Soviet Union in exchange for raw materials received. Some fraction of the exports of engineering industry may, of course, reach other markets than Russia, especially those of the satellite States. Yet the essential significance of the change in the economy and, in particular, in the industrial structure of Hungary, is the dominant position accruing to trade with the Soviet Union. Even in the initial stages of its extension under the Three-year Plan, heavy industry fulfilled the double task of (1) re-equipping and enlarging home industry, (2) sending supplies to Russia on account of reparations and under the trade agreement. As soon as reparations were cut, representatives of the Soviet Union stressed their willingness to take over the surplus on a commercial basis, and in October 1948 a special agreement for the delivery of products of heavy industry was concluded. Hungarian Government quarters welcomed this agreement as securing a stable market of vast proportions for the extension of heavy industry.

While the output of heavy industry was substantially extended under the Three-year Plan, it is to be trebled again during the period 1950–4. Meanwhile the need for expansion of industrial plant in Hungary will reach saturation point, and a larger surplus of the output of capital goods will be released for export. The Russian benevolence which has been commended in the

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433 439 official Hungarian declarations would then probably again intervene. The resulting dependence tends to become the more ominous the more competitive the market for heavy-industry products grows. The expansion of an industry so situated might end in disaster.

439 E48 This veering of trade relations to the East is, in fact, a corollary of the change in the economic structure as well as in political ties. To contribute to the supply of capital goods in the Soviet Union is a task imposed upon Hungary as well as on the other countries bordering on the Soviet Union in the West. The concerted efforts of a group of industrialized countries with a population exceeding 60 million (if Rumania is included) should be of consequence even to an economy of the vast proportions of the Soviet Union.

In principle the new economic structure should improve Hungary's international economic position. The former one-sided dependence on the marketing of agrarian products, in particular of grain, has diminished. Present trends indicate that the relative importance, though not the volume, of farm products will decrease step by step. Under the conditions now prevailing Hungary is able to offer in exchange for imported raw materials and equipment both industrial and agricultural products. A moderately industrialized community is definitely in a favourable position if it is able to rely on its own food supplies. To what extent Hungary will be able to exploit her new position in foreign trade will in general be decided by the question of relative costs, and, in particular, by the terms of trade with Russia.

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CHAPTER XII

CONCLUSION

EFFORTS AND ACHIEVEMENTS

THE Hungarian Three-year Plan was an ambitious scheme for forcing up industrial output and it produced conspicuous results. Reconstruction in industry and transport was accomplished, and, beyond that, industrial capacity in important sectors enlarged. Efforts were made in agriculture to make good in a few years the omissions of previous decades. The training of farmers, the abolition of strip farming, and the application of a series of technical changes were part of a comprehensive development programme calculated to raise yields. In spite of extreme tension in the villages, improvements were effected, though naturally at a slower pace than in industry, and the first slight progress was made in mechanization.

When all the collateral effects of the production drive in industry are taken into consideration, there is room for doubt whether the results achieved are to be accepted at their face value. Hungarian planners set out to force increasing production at all costs. If they failed to realize the reduction in costs of production which they had hoped for, they at any rate found a way towards higher production by making a fuller use of the available resources. They could do so because they were carrying out the Plan in a community where labour was underemployed. They concentrated on one of their targets—the volume of production—while abandoning the realization of the rest. It was possible to draw more heavily on labour reserves than originally intended, and there resulted an unevenness in the execution of the Plan. While production programmes were reached or slightly exceeded, the improvement in the productivity of labour fell short of the estimates. It was not only additional labour that was required, but also capital equipment. The planners claimed at first that the capital programme had been exceeded by some 20 per cent. According to statements in the Final Report of the National Planning Department, the excess overestimates amounted to 25 per cent in investment as a whole, and in industry in particular to 37 per cent. Investment seems to have gone beyond what was required for the level of production which had been planned. Were there perhaps in the later stages investments carried out in preparation for the

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433 second Plan, that for the years 1950–4? If so over-fulfilment would bear fruit in the future. On the other hand was the excess in investment due to miscalculations? Or was it intended to compensate for the slow progress in labour efficiency? Under democratic institutions such problems would be freely and thoroughly discussed. Under totalitarian rule the fact that investment exceeds the estimates by thousands of millions of forints is recorded with the same monotonous complacency as a rise in current production. But if investment is carried through quite out of proportion to original estimates, without being warranted by an adequate rise in production, it becomes highly questionable whether such a proceeding can be termed economic planning.

Until recently a common feature of planning in the countries of Eastern Europe has been, in contrast with a country with full employment, the prospect of drawing on reserves of labour. In the case of a full utilization of resources the several parts of the plan have to be synchronized, and, if the productivity of labour falls short of requirements, production will fail to reach the target. Under conditions of planning in the East of Europe the statistical returns of production may appear highly satisfactory, yet, in proportion to the labour force and the capital equipment employed, they represent results far short of successful planning.

511 The original aims of the Plan, officially confirmed later on,
465 were:

(1) To reconstruct and re-equip Hungarian economy;
(2) To raise standards of living.

The first objective has been achieved. As to the second it may be questioned whether the increase in well-being was proportionate to the efforts made. The concrete programme of the Plan in the field of consumption was slightly to improve upon pre-war standards. By the end it was claimed (yet not proved) that the real earnings of the workers would be 40 per cent above pre-war level. This claim can be dismissed. Only by neglecting the impact of the black market on the cost of living could it be maintained that pre-war standards were reached as soon as mid-1948. As only average wage-rates for the whole of manufacturing industry were released, the lack of detailed information in a period of changing wage structure obscured the real position. The gap between the lower and better-paid categories of worker, which had previously been quite substantial in Hungary, was narrowed. Extremely low pre-war wage-rates, like those in the textile industry, were improved. On the other hand groups, such as that of the printers, which had formerly been very favourably placed, found themselves nearer the average.

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been very favourably placed, found themselves nearer the average.

No doubt the improvements in the standard of living, brought about under the Plan, were conspicuous if the comparison is made with the miserable level of 1946–7. Some indication is given on general standards in the first Plan year. According to a computation published by the Central Statistical Office, during the period May 1947 to February 1948, food required 53 per cent of the total outlay of a typical Budapest working-class family in contrast to 40 per cent in 1938. Private sources estimated the percentage of income spent on food even as high as 60 per cent. It is true, on the other hand, that the relative proportion spent on rent was greatly diminished, as it was fixed at a fraction of the pre-war level.

The opinion of people who observed conditions in Hungary during the second half of 1949 was that food was abundant, except for certain animal products. According to some observers, workers and employees enjoying average earnings disposed of purchasing power sufficient to provide the necessary food for themselves and their families, but hardly anything was left from their incomes after meeting needs for primary necessities and paying compulsory contributions. It is only by comparison with conditions preceding the Plan, that a visible improvement not only in food but also in clothing was recorded. An official computation, which compares the breakdown of the workers' family budget in 1949 with that in the late twenties, substantiates in broad lines the foregoing observations.

BREAKDOWN OF THE FAMILY BUDGET OF WORKERS

	1928–9	*1949*
	Percentage of total spending	
Food	52·6	45·5
Clothing	11·5	19·0
Rent	12·7	2·8
Fuel and light	6·1	5·4
Sundries	17·1	27·3
Total	100·0	100·0

The ratio of spending on food obviously declined as wages went up in the course of the Plan (45·5 per cent in 1949 compared with 53 per cent in 1947–8). Clothing absorbed in 1949 a substantially higher quota of the income than in the inter-war period, manufactured products being extremely expensive in terms of average income. Spending for needs other than bare necessities is summarized under the item 'sundries'. In 1949 their ratio appears to be considerably higher than earlier. The improvement is, however, illusory for the workers, as from 1949

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511 onwards their contribution to the Five-year Plan loan is included in that item.

511 The hourly average wage in manufactures, 1·70 forint in 1946–7, rose to 2·71 in 1947–8 and further to 3·50 by mid-1949. 466 As no changes of considerable extent occurred in the ensuing half of the year, the last figure may be assumed for the end of the Plan. In spite of shifts in the price level those figures represent appreciable relative improvement in real terms. Yet results were poor as shown by international comparison. According to the computation of the Economic Commission for Europe,[1] based on average earnings in mid-1949, the Hungarian worker had to work 19 minutes (the British worker 11 minutes) in order to earn the equivalent for 1 kilogramme of bread; the equivalent for 1 kilogramme of meat in terms of working time was 160 (84) minutes, for bacon 430 (120), and for sugar 110 (22). It could hardly be assumed that the relative position of the Hungarian worker in terms of manufactured products would be more favourable than that regarding food supplies.

Whatever improvement was attained, the rise in the standard of living of the wage-earners was, as officially stressed, not exclusively due to the increasing supply of consumer goods. To a certain extent the redistribution of incomes also contributed to this development. The progress in the social condition of the work-people had its counterpart in the deterioration of that of the middle classes as a result of a deliberate policy.

AN INDUSTRIAL HIGH-COST AREA

434 It has been seen that the Three-year Plan was drawn up as a national plan. Economic co-operation with the Soviet Union and the Russian-dominated countries was, of course, encouraged. Yet it was by promoting closer trade relations, and not by attempts to co-ordinate planning, that this was brought about. The exchange of commodities on an increasing scale was possibly kept in view at a preparatory stage, and it may also have entailed modification of the Plan in the course of its execution. But this sort of co-ordination of economic activities is different from that to be achieved by joint planning, which would modify the division of labour among the different national industries. That result might perhaps be brought about through closer trade relations, but trade as conducted between the countries of Eastern Europe does not itself give rise to a rational division of labour. When international competition is excluded and a barter trade is carried on on a bilateral basis, the inter-

[1] See Appendix, Table XII, p. 141.

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change of commodities can be continued even though not justified by comparative costs. 439

At the beginning of 1949, when the Advisory Council for Mutual Aid was established in Moscow, it was believed in some quarters that the Council would form a nucleus for supernational planning. It did not go so far.[1] The second Hungarian Plan, like the first, is a national plan, in the sense that it has not been integrated into a more comprehensive regional system, aiming at co-ordination of industrial expansion, but has been limited to the development of national industries. Though both Plans were national in their technical character, it is not to be inferred that they were truly national, in the sense of serving as far as possible the real interests of the Hungarian people.

If any central conception has been shared by the Eastern plans it has been the rapid development of heavy industry. The Hungarian planners followed this line faithfully. Within [433] the Three-year Plan some 80 per cent of industrial (or 25 per cent of total) investment served the expansion of the capital-goods industries. Engineering and the generation of power were the main objects of this development. The capacity for producing iron and steel, which forms the basis of heavy industry, was not extended under the Three-year Plan. The existing works were producing at capacity. For their iron-ore supplies they had to rely to the extent of at least 60 per cent on material brought from abroad, some of it from afar. Requirements of metallurgical coke had to be met up to 80 per cent by imports. During the inter-war period Czechoslovakia and Yugoslavia had been the main ore suppliers. When deliveries from Yugoslavia fell off, the Soviet Union stepped in as an important source of iron ore. Following the war, it was Russia again that provided coke, which had previously been mostly drawn from Silesia. All this points to the conclusion that the 433 location of the Hungarian blast furnaces is far from satisfactory, 435 as the bulky materials they need have to be transported by rail over great distances. High production costs are reflected in the prices of steel products, as is shown by the following comparison

[1] It is noteworthy that co-operation in limited fields with Poland and Czechoslovakia had been initiated prior to the erection of the Council for Mutual Aid. Negotiations were carried on on a bilateral basis before and after the formation of the Moscow Council. Moreover, a Hungarian-Polish Committee for Economic Co-operation had been established with a view to co-ordinating the plans. This latter met frequently and, besides points of minor importance, dealt with the division of labour to be carried through in some of the light industries of the participant countries. To what extent these major objectives have been realized is not clear. On the whole, deliberations went on in that specific atmosphere of international committees, taking technical decisions only. Characteristically enough the issue of a division of labour in the heavy industries has never figured on the agenda.

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433 [435] of Hungarian official prices, calculated in sterling at official rates, with quotations in Great Britain.

	Hungarian Price	*British Price*	*Difference in percentage*
	Mid-1948		
	£ s. d.	£ s. d.	
Mild steel sections per ton	32 10 0	19 10 0	66
Mild steel sheets 28/m per ton	44 10 0	29 10 0	50
Gas pipes 1 in. per meter	3 2	1 6	111
Vacuum "B B" oil per kg.	3 5	1 3	173

[328] The considerable extension of aluminium production provides another example of the uneconomic use of resources. Though domestic supplies of bauxite are ample, the cost of processing aluminium is, in the absence of cheap hydro-electric power, extremely high. It is indicative of the high cost of production that the price generally charged for aluminium in Hungary was three times that in Great Britain, while even a special reduced price was double.

[327] Steel production is to be almost trebled under the revised second Plan. The erection of new iron and steel works on the Danube is in progress. The bituminous coal mined in Hungary was, until recently, not suitable for producing foundry coke. A new process is believed to achieve technically satisfactory results. But according to a calculation of cost drawn up in the Ministry of Industry, it is much too expensive. For iron-ore supplies, the new works will be entirely dependent on Russia, at least so long as deliveries from Yugoslavia are out of the question. Ores mined in the Krivoi Rog district will be shipped via the Black Sea and the Danube. Thus the Hungarian iron and steel industry will be linked by double ties to Russian economy, the latter providing the raw materials as well as the market for the products. Under this aspect the new iron works on the Danube appear to be an extended arm of Russian heavy industry. This expansion was conceived in the spirit of a war effort as opposed to economic planning. Economic considerations would not have allowed such a disregard of cost.

PLANNING AND THE SCALE OF NATIONALIZATION

000 Experience in Hungary has not contributed to settle the controversial issue whether effective planning could be based on a system of mixed economy or only on one of full-scale nationalization of industry. During the short-lived first phase of the Three-year Plan the impulse it imparted to production and investment was, no doubt, successful. The evidence did not substantiate Communist charges of sabotage during this period,

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which were stressed for reasons obvious at the time, when the more intensive nationalization of industry had been proclaimed. The issue on which divergences of opinion between the planning authorities and private enterprise mostly arose was that of investment. The entrepreneurs were in many cases not satisfied that the capital extensions suggested would in the long run prove remunerative. They were also reluctant to incur indebtedness for the purpose of new investment. However, differences as to the expediency of projects did not stand in the way of a considerable investment activity, even outside the nationalized industries during the first phase of the Plan. Moreover, the number of controversial cases might have been reduced by having recourse to more discriminating methods of selection among investment projects than were practised by the Hungarian planners.

Evidently the period during which the system of mixed economy lasted was too short for valid conclusions to be drawn from the experience gained. Even if this period had been more than a short interlude, the results of the Plan would have had little bearing on the possibilities of planning in a Western democracy. The vesting in the planning authority of almost unlimited power to enforce the execution of the Plan was not consistent with democratic principles.

Started under conditions of heavy under-employment, the Three-year Plan constituted a period of transition, shaping economic life towards a full use of productive resources. This objective is to be realized under the second Plan, introduced in January 1950. It is remarkable that obstacles to the tapping of the rural man-power reserve became apparent as early as the close of the first Plan. These difficulties might have their origin in the special conditions of Hungarian agriculture as well as in defects of organization. To counter them, propaganda has been launched to employ female workers in every branch of industry, including heavy industry. With a further rise of industrial employment and growing difficulties in drawing on the man-power reserve, this trend of recruiting women will be intensified, and will impart the character of a war economy to industrial life in Hungary.

The nearer the objective of establishing a full use of productive resources is approached, the more the conditions of planning will change. When the labour reserves have been absorbed, it will no longer be possible to reach production targets by means of another more costly combination of factors than originally planned. Fulfilment of the Plan will then necessitate a

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balanced progress of all components of the Plan. It is under these conditions that the realization of programmes of production would provide a genuine test for successful planning.

In the course of this study the question has been repeatedly raised what part of the expansion recorded is to be credited to the impetus given by the Plan. It is evident that to a certain, though unascertainable, extent a resurgence of economic forces, supported by a revival of foreign trade and improved nutrition, would have almost automatically materialized. But the Plan reinforced the upward trend by maintaining and steadily extending effective demand. In doing this the Plan imparted a specific turn to developments in Hungary by giving high priority to the production of capital goods. This is just the point open to criticism. Was it not the pace of investment dictated by the Plan that prevented the attainment of a level of consumption adequate to the efforts made? This argument, of course, has some substance, though a mechanical interpretation of the inter-connexion of investment and consumption level is to be avoided. It should not be forgotten that, under the conditions prevailing in post-war Hungary, considerable capital expenditure for reconstruction and re-equipment was a prerequisite for extending production. Given the privation of the early post-war years and the limited propensity to save in Hungary, it would have been futile, even with foreign aid, to expect adequate resources for investment from efforts on individualistic lines. This consideration constitutes a weighty argument for the planning of investment and reconstruction, though not on precisely the model of the Hungarian Three-year Plan.

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APPENDIX

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Table of Conversion

1 kilogramme	=	2·205 lb.
1 quintal	=	220·5 lb.
1 metric ton	=	0·984 ton
1 metre	=	1·094 yard
1 kilometre	=	0·621 mile
1 cadastral yoke*	=	5,754·6 sq. metre
	=	1·42 acre
1 hectare	=	2·471 acre
1 sq. kilometre	=	0·386 sq. mile

* Cadastral yoke is the unit used in official publications; the farmers employ another yoke equal to 0·75 cad. yoke. In this study yoke refers throughout to cad. yoke.

In connexion with crops and agriculture, 1945–6, 1946–7, etc., denote periods from 1 July to 30 June. The crop 1946–7 means the one sown in 1946 and 1947, while reaped in the course of 1947.

436

The forint is reckoned at 50 to £1, being approximately the rate prevailing before the devaluation of sterling in September 1949 (47·31).

Table I

Production

433

[241]

Agriculture

	1934–8	*1945–6*	*1946–7*	*1947–8*	*1948–9**
Sown area (1,000 yoke)	9,526	9,060	9,350	9,460	9,494
Reaped area (1,000 yoke)	9,400	8,440	8,900	—	—
Main Crops (in million quintal)					
Wheat	22·2	11·3	12·6	15·8	—
Rye	7·0	4·2	5·6	7·2	—
Barley	6·1	4·4	4·0	7·1	—
Maize	23·0	13·6	17·8	29·6	—
Potatoes	21·3	11·4	14·6	23·3	—
Sugar-beet	9·6	5·2	11·6	15·9	—
Livestock (1,000 head)					
Cattle	1,882†	1,007	1,223	1,841	2,004
Pigs	3,110†	1,152	1,717	2,792	2,820
Horses	814†	370	424	575	657
Sheep	1,629†	313	397	570	593

* Figures on crops not published.
† 1937–8.

Mining, Manufacturing Industry

Yearly output	*1938*	*1946–7*	*1947–8*	*1949*
Coal (1,000 ton)	9,360	7,750	9,860	11,500
Bauxite (1,000 ton)	470	250	400	—
Crude oil (1,000 ton)	43	640	500	—
Natural gas (1,000 cu. metre)	8,100	—	205,000	—
Iron ore (1,000 ton)	370	210	260	—
Steel (1,000 ton)	647	510	720	806
Cotton piece-goods (1,000 metre)	—	91,500	—	160,000
Woollen cloth (1,000 metre)	—	9,300	—	25,000

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

TABLE II

LABOUR

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Labour Force (yearly averages)

	1938	*1946–7*	*1947–8*	*1949*
Mining, metallurgy	41,500	59,000	61,000	67,000
Manufactures	288,500	250,000	291,000	382,000

Wages

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Average daily earnings in Mining and Manufactures (in forint)

Quarter to	*1946*	*1947*	*1948*
March	—	12·90	18·20
June	—	14·96	—
September	10·14	17·89	—
December	12·26	17·80	—

Average hourly earning in Manufactures (in forint)

October 1946	1·29
Average 1946–7	1·70
Average 1947–8	2·71
August 1948	3·07
July 1949	3·50

DISTRIBUTION OF OCCUPATIONS

Census 1941

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	Working Population		*Non-earning Population*		*Aggregate*	
	Thousands	*% of Total*	*Thousands*	*% of Total*	*Thousands*	*% of Total*
Agriculture and forestry	2,154	47·8	2,383	49·5	4,538	48·7
Mining, metallurgy	55	1·2	111	2·3	166	1·8
Industry	1,057	23·5	1,142	23·7	2,199	23·6
Commerce and banking	260	5·8	256	5·3	516	5·5
Communications	140	3·1	234	4·9	374	4·0
Civil service and professions	230	5·1	242	5·0	472	5·1
Armed forces	128	2·8	30	0·6	158	1·7
Domestic servants and casual workers	201	4·5	51	1·1	252	2·8
Rentiers and pensioners	200	4·5	186	3·9	386	4·1
Not specified	77	1·7	176	3·7	253	2·7
Total	4,505	100·0	4,815	100·0	9,320	100·0

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

APPENDIX

TABLE III

FOREIGN TRADE

(1) *Totals (in million forint)*

	1938	*1946–7*	*1947–8*	*1949*
Exports	3,364	837	1,422	3,250*
Reparation deliveries	—	1,223	1,376	—
Imports	2,538	944	1,901	3,300*
International relief	—	254	—	—

* Estimates.

(2) *Structure of Foreign Trade by Principal Commodity Groups*

	1938	*1946*	*1947*	*1948*
		Percentage of Total		
Imports				
Raw materials	41·1	53·6	53·1	55·4
Semi-manufactures	28·7	14·6	19·7	24·9
Manufactures	30·2	31·8	27·2	19·7
Total	100·0	100·0	100·0	100·0
Exports				
Raw materials	59·6	36·1	35·9	32·2
Semi-manufactures	9·8	10·6	17·7	13·7
Manufactures	30·6	53·3	46·4	54·1
Total	100·0	100·0	100·0	100·0

3:Kemeny G-5 (1945-48)1952. ECl Hungary ECl

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(3) *Pattern of Trade*

	Exports 1938		*Imports 1938*		*Exports 1947–8*		*Imports 1947–8*	
	million pengö	*percentage of total*	*million pengö*	*percentage of total*	*million forint*	*percentage of total*	*million forint*	*percentage of total*
Eastern Europe (excluding U.S.S.R.)	69·7	13·44	95·1	23·15	444·1	31·17	606·3	32·21
Soviet Russia	0·5	0·10	0·4	0·10	280·1	19·66	290·6	15·30
Western Europe	329·7	63·11	233·1	56·77	263·2	18·56	407·3	21·40
Northern Europe	18·9	3·62	7·7	1·87	75·2	5·28	99·1	5·21
British Empire	52·9	10·13	30·7	7·48	271·1	19·12	262·3	13·79
Near East	15·8	3·02	14·2	3·46	53·8	3·79	51·7	2·72
United States	12·8	2·45	21·6	5·28	17·1	1·21	136·0	7·18
Central and South America	17·2	3·29	4·8	1·17	4·2	0·29	39·9	2·10
Other Overseas Territories	4·9	0·94	3·0	0·72	13·1	0·92	1·8	0·09
Total	522·4	100·00	410·6	100·00	1,421·9	100·0	1,901·0	100·00

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TABLE IV

PRICES

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(1) *Wholesale Prices*
(January 1947 = 100)

1946	*Total Index*	*Farm Products*	*Industrial Raw Materials*	*Industrial Products*
August	99·0	87·6	98·7	102·5
September	99·0	89·7	98·7	102·5
October	98·2	90·1	98·4	101·6
November	98·5	93·1	97·1	102·9
December	98·2	92·6	97·3	100·2
1947				
January	101·9	107·4	102·7	99·8
February	103·7	112·1	102·7	101·4
March	106·5	122·1	103·1	102·4
April	108·6	127·5	103·3	102·9
May	114·4	150·2	106·6	103·2
June	118·8	166·1	110·4	104·4
July	120·1	170·5	110·5	104·8
August	121·2	174·0	111·0	104·9
September	120·5	169·7	111·4	106·3
October	124·2	180·3	111·9	106·7
November	124·4	178·6	113·2	107·1
December	127·3	185·0	114·5	109·4
1948				
January	127·7	186·2	114·3	109·5
February	131·4	186·2	119·3	114·6
March	133·8	195·6	119·5	115·1
April	135·0	200·9	119·6	116·1
May	136·0	204·7	120·4	113·2
June	131·9	186·0	120·4	116·9
July	130·9	182·1	120·7	116·3
August	132·1	186·3	120·7	116·6
September	126·4	159·4	121·3	118·9
October	127·8	164·6	120·5	119·0
November	124·7	150·4	119·9	119·5
December	124·1	146·1	123·3	119·6
1949				
January	123·2	142·6	123·3	119·3
February	122·7	141·4	123·3	119·1
March	122·9	141·3	122·8	119·5
April	122·7	141·2	121·5	119·4
May	123·9	147·1	121·6	119·2

(2) *Cost of Living*
(August 1946 = 100)

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1946	*Total Index*	*Food*	*Clothing*
August	100·0	100·0	100·0
December	106·2	113·5	102·3
1947			
March	113·2	126·3	106·2
April	118·5	135·7	106·9
May	114·1	125·2	113·3
June	119·2	135·4	113·3
July	110·0	117·0	113·3
August	110·8	120·1	112·8
September	115·1	128·3	113·6
October	126·7	151·0	113·6
November	130·8	159·2	113·6
December	126·5	149·9	114·5

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1948	*Total Index*	*Food*	*Clothing*
January	128·4	153·1	113·2
February	132·6	159·9	113·2
March	130·0	154·8	112·7
April	130·6	156·3	112·1
May	132·5	158·5	112·8
June	124·2	142·1	112·8
July	117·0	128·0	112·8
August	115·2	124·1	113·4
September	110·1	113·9	114·0
October	114·8	120·6	114·0
November	115·7	122·8	112·6
December	115·3	122·3	112·6
1949			
January	113·9	119·6	112·6
February	111·4	114·6	112·6

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TABLE V

FINANCE AND CREDIT

(1) *Budget*

	1937–8	*1946–7*	*1947–8*	*1949*
		million forint		
Total expenditure of which	6,215	3,701	6,300	13,000
Current on goods and services	5,755	2,265	3,758	—
International commitments	—	1,436	1,709	—
Plan investment	—	—	833	4,300
Total revenue of which	6,178	3,703	6,397	—
Current	6,084	2,891	6,047	—
Borrowing and other extraordinary	99	812	359	—

(2) *National Bank of Hungary*

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	Gold and Foreign Exchange	*Bills*	*Loans on Current Account*	*Advance to Treasury*	*Notes in Circulation*	*Sight Liabilities*	*Deposits*
				million forint			
1946							
31 August	278	374	—	—	356	147	—
31 December	338	495	—	342	968	161	—
1947							
31 July	501	920	—	340	1,592	93	—
31 December	501	1,663	—	340	1,992	319	—
1948							
31 July	452	1,730	779	340	2,224	334	730
31 December	556	50	5,981	337	2,817	29	3,691
1949							
31 July*	600	3	7,331	309	3,094	3	4,716
31 December	512	—	8,557	288	2,629	3	6,492

* Banking reform in progress.

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(3) *Total Deposits of Commercial Banks and Savings Institutions*

	million forint
1938	11,630
1946 August	81
December	435
1947 July	791
December	1,265
1948 July	1,432*

* Including 389 million forint held by the National Bank, the transfer of the assets and liabilities of the other banks to the National Bank being in progress.

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TABLE VI

DEVELOPMENTS IN TRANSPORT

(1938 = 100)

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Goods	*1946–7*	*1948*	*1949*
Railway	77·8	128·8	148·6
Road	183·7	218·7	223·4
Shipping	22·6	68·0	76·0
Passengers			
Railway	120·0	204·0	222·0
Road	58·0	159·0	289·0

TABLE VII

CAPITAL EXPENDITURE UNDER THE PLAN[1]

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	1947–8	*Total Plan Period*
	million forint	
Agriculture	688·0	3,255
Mining and industry	792·0	2,987
Communications	545·4	1,957
Building (urban housing, social, and cultural)	468·7	1,844
Total	2,494·1	10,300*

* Inclusive of 257 million forint trade investment.

TABLE VIII

DETAILS OF INVESTMENT IN 1947–8

	Million forint	*Per cent of Programme*
Agriculture		
Directly into agricultural production	335·2	127·3
Agricultural training	24·4	97·4
Industries serving agriculture*	124·6	109·3
Rural electrification, housing, and roads	203·7	115·1
Total	688·0	118·7
Mining and Manufactures		
Mining	161·5	115·4
Iron, steel, non-ferrous metal, and engineering	293·9	124·5
Electrical power generation	143·2	286·4
Textiles	68·9	186·3
Chemicals	64·5	97·8
Miscellaneous†	59·8	196·3‡
Total	792·0	143·0
Communications		
Railways	238·9	136·0
Roads	159·4	146·8
River, air, tramway, and postal services	147·0	102·8
Total	545·4	127·6

* Including the production of tractors, fertilizers, etc.
† Including building materials, food, leather, paper, and wood manufactures.
‡ Excluding leather for which no target is given.

1 [The Hungarian Three Year Plan of 1947-9--Analyst]

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Building	*Million forint*	*Per cent of Programme*
Urban housing	111·7	144·9
Hospitals and other social service buildings	117·0	143·5
Schools and scientific institutions	55·3	113·0
Administrative buildings for general and local authorities*	184·7	772·9
Total	468·7	199·2

* Including aqueducts and sewage installations.

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TABLE IX

1947–8 PRODUCTION IN MINING AND MANUFACTURES COMPARED WITH PLAN AT JANUARY 1947 PRICES

	Million Forint	*Per cent of Programme*
Total Mining	754·1	106·4
Steel (unmanufactured)	373·8	108·9
Total Manufactures	12,468·4	104·5
Iron, non-ferrous and engineering	3,455·7	123·3
Electricity generation	680·5	120·9
Chemicals	1,260·1	109·3
Textiles	2,319·7	95·2
Food industries	2,865·1	86·8
Other industries	1,887·2	112·5

TABLE X

1949 PRODUCTION IN MINING AND MANUFACTURES COMPARED WITH PRE-WAR

(1938 = 100)

Iron ore	114	Bicycles	283
Bauxite	104	Motor bicycles	728
Coal	127	Electric power	168
Crude oil	1,169	Cement	162
Steel	131	Sheet glass	244
Aluminium	1,110	Phosphate fertilizers	208
Machine tools	3,040	Nitrate fertilizers	182
Railway waggons	320	Vegetable oils	182
Locomotives	822	Cotton fabric	119
Lorries	190	Woollen cloth	125
Tractors	470	Footwear	122
Agricultural machines	332		

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TABLE XI

NATIONAL INCOME*

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	1938	1946–7	1947–8
		million forint	
Net contribution of:			
Agriculture	6,820	3,964	5,060
Mining and metallurgy	574	628	732
Manufacturing industry	6,516	3,760	6,277
Handicrafts	3,229	2,062	2,481
Trade	2,210	1,408	1,836
Transport	728	463	621
Plus Taxes on consumption	1,546	1,350	1,739
National income at market prices	21,623	13,635	18,746
Plus (minus) import (export) surplus	−1,103	+118	+440
	20,520	13,753	19,186
Less Public expenditure on goods	−2,830	−916	−1,655
International commitments	—	−1,436	−1,223
Investments	−1,373	−712	−2,374†
Value of goods available for private consumption‡	16,317	10,689	13,934

* The value of housing and personal services not included.
† Revalued at 1947 January prices, including private agricultural investment.
‡ Without allowance for the replenishment of stocks (see p. 51).

TABLE XII

INTERNATIONAL COMPARISONS

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(1) *The Price of Food in Terms of Working Time of Industrial Workers Mid-1949*
Minutes per kg. or litre

	Bread	Potatoes	Milk	Meat	Bacon	Butter	Sugar
Hungary	19	9	28	160	430	440	110
Poland	29	10	29	110	330	420	110
Italy	38	13	28	300	660	490	100
France	28	12	27	240	150	440	75
Switzerland	11	11	11	140	160	230	25
United Kingdom	11	7	16	84	120	75	22
United States	13	4	9	64	64	70	9

SOURCE: U.N., Economic Commission for Europe, *Economic Survey of Europe in 1949* (Geneva, 1950), p. 37.

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(2) *Consumption of Selected Textiles*
per kg. per person per year

	Cotton		Wool		Rayon		Total	
	1938	1948	1938	1948	1938	1948	1938	1948
Hungary	2·7	2·3	0·6	0·4	0·45	0·17	3·8	2·9
Rumania	1·8	1·4	0·7	0·4	0·07	0·15	2·6	2·0
Poland	2·0	2·8	0·5	0·5	0·31	0·71	2·8	4·0
Czechoslovakia	3·8	3·5	1·0	1·2	0·28	1·85	5·1	6·6
Italy	2·0	3·0	0·6	0·9	1·55	0·54	4·2	4·4
France	4·6	5·2	1·8	2·3	0·58	1·48	7·0	9·0
United Kingdom	8·2	6·7	3·1	2·7	0·97	1·53	12·3	10·9
United States	10·0	13·3	1·0	2·2	1·07	3·41	12·1	18·9

SOURCE: U.N., Economic Commission for Europe, *Economic Survey of Europe in 1949* (Geneva, 1950), p. 33.

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